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

Webster, Massachusetts

For the Period January 1, 2008 through December 31, 2008

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September 2, 2010

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Murphy:

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

THE COMMERCE INSURANCE COMPANY

at their home offices located at:

211 Main Street
Webster, MA 01570

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination of The Commerce Insurance Company ("Commerce" or the "Company") for the period January 1, 2008 to December 31, 2008. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, Section 4. The examination was conducted concurrently with examination of Company affiliate, Citation Insurance Company ("Citation"), as management, systems, processes and controls are common to operations of both of these affiliated companies. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2008 NAIC Market Regulation Handbook*, ("the Handbook") the market conduct examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations and bulletins, and selected federal laws and regulations. All procedures were performed under the management, control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division's financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

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

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

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

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

EXECUTIVE SUMMARY

This summary of the comprehensive market conduct examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, tests conducted, findings and observations, recommendations and required actions and, if applicable, subsequent Company actions. Managerial or supervisory personnel from each functional area of the Company should review report results relating to their specific area.

The Division considers a substantive issue as one in which corrective action on part of the Company is deemed advisable, or one in which a "finding," or violation of Massachusetts insurance laws, regulations or bulletins was found to have occurred. It also is recommended that Company management evaluate any substantive issues or "findings" for applicability to potential occurrence in other jurisdictions. When applicable, corrective action should be taken for all jurisdictions, and a report of any such corrective action(s) taken shall be provided to the Division.

The following is a summary of all substantive issues found, along with related recommendations and required actions and, if applicable, subsequent Company actions made, as part of the comprehensive market conduct examination of the Company. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division's website at www.mass.gov/doi.

The comprehensive market conduct examination resulted in no recommendations or required actions with regard to marketing and sales and policyholder service. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these sections. Further, the tested Company practices appear to meet industry best practices in these areas.

SECTION I-COMPANY OPERATIONS/MANAGEMENT

STANDARD I-3

Findings: None.

Observations: Based upon RNA's review of policies and procedures, it appears that anti-fraud initiatives are generally in place to detect, prosecute, and prevent fraudulent insurance acts. During review and testing of complaints, RNA noted that the Company regularly reports significant claim fraud to the Insurance Fraud Bureau of Massachusetts ("IFB"), but the Company often does not report other less significant fraud since such cases are frequently not accepted by the IFB for further review.

Recommendations: The Company should report all fraud cases to the IFB to allow them to use such information, in conjunction with other information from other sources, to investigate fraud as appropriate.

SECTION II-COMPLAINT HANDLING

STANDARD II-1

Findings: RNA noted that the Company's formal and consumer complaint registers included all statutorily-required database elements. However, in the formal complaint register, the "nature of the complaint" database element was only completed for claims-related complaints from consumers, but was not completed for Division and other complaints. The omission of this database element does not facilitate complaint reporting by the specific nature of the complaints.

Further, RNA noted that 10 of the 106 Division complaints tested were not properly included in the 2007, 2008 and 2009 formal complaint registers. Finally, the Company could not locate documentation supporting five of these 10 complaints. Each of these three findings are not in compliance with M.G.L. c. 176D, § 3(10).

Observations: The Company timely prepared quarterly formal complaint trend reports showing formal complaints by type of claim or department assigned.

Required Actions: The Company shall begin capturing the specific nature of each formal complaint, and including that database element in the formal complaint register in all instances. This will allow complaint reporting to include classification by the specific nature of the complaints in the quarterly formal complaint trend report, for use by senior management and the executive committee. To address the completeness of the formal complaint register, the Company's newly created procedure to perform an independent check of the completeness of the formal complaint register shall continue to be completed at least monthly. The Company shall also revise its complaint handling procedures to ensure that all complaints are properly maintained for a five-year period. The internal audit department shall conduct an independent audit of the effectiveness of these new procedures by June 30, 2011 and report the results of the audit to the Division, and annually thereafter until the next scheduled market conduct examination.

Further, the Company shall consolidate all written complaints in one complaint register, since written complaint procedures are statutorily required. This will ensure that all written complaints can be consistently handled, easily monitored and fully summarized for trend reporting. Further, the Company shall consider maintaining separate complaint registers for each statutory entity, or consider segregating the complaint registers by statutory entity, for ease of analysis in that manner.

Subsequent Actions: Effective September 1, 2010, the Company has begun capturing the specific nature of each formal complaint in the formal complaint register. The Company has also consolidated all written complaints in one complaint register. The Company continues to perform the monthly completeness check of the formal complaint register, and an auditor from the claims audit department will, on a quarterly basis, sample complaints to ensure that the register is accurately maintained. Finally, the Company has revised its complaint handling procedures to ensure that all complaints are maintained for a five-year period.

SECTION IV-PRODUCER LICENSING

STANDARD IV-3

Findings: RNA noted that the Company gave advance notice to the Division for two agent terminations, without accurately stating the termination effective dates. In addition, when the effective date of one of these terminations was subsequently changed, this was not communicated to the Division. A third agent termination was not reported in the required format to the Division. As such, the Company was not in compliance with M.G.L. c. 175 § 162 T.

Observations: Based upon testing, the Company's notification of 11 of 14 agent terminations to the Division and the agents was in compliance with statutory requirements. Further, notification of Exclusive Representative Producer ("ERP") terminations was timely made to the ERP, Commonwealth Automobile Reinsurers ("CAR") and the Division.

Required Actions: The Company shall ensure that accurate effective dates of the agent terminations are timely communicated to the Division through the Massachusetts On-Line Producer Appointment ("OPRA") system. When such agent terminations are reported in advance of the termination effective dates, or when the termination effective dates change, the Company shall notify the Division accordingly. The Company's internal audit department shall conduct an audit of agent terminations to be completed by June 30, 2011 to test for timely and proper reporting to the Division. The results of the audit shall be reported to the Division once the audit is completed.

Subsequent Actions: The Company states that it has adopted a new policy and procedure to require that all agent terminations be processed through OPRA.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-7

Findings: None.

Observations: Based upon testing, Company-initiated cancellations, non-renewals and declinations were not unfairly discriminatory. The Company reported no commercial automobile or commercial property/liability declinations during the examination period. RNA's review indicated that the Company's policy of using credit scores for homeowners' minimum underwriting requirements appears to comply with statutory and regulatory requirements. The Company was also unable to produce a record of homeowners' declinations provided by agents on the Company's behalf during the examination period. Further, the Company has not instructed agents to retain and report information supporting homeowners' applicants declined for coverage, and has not monitored agents for compliance with this requirement.

Required Actions: The Company shall require that agents retain copies of notices provided to applicants, who were declined for homeowners' coverage for a five-year period. The Company shall also obtain from the agents or a third party vendor, a quarterly listing of homeowners' applicants receiving written declination notices. The quarterly listing shall be used to complete on-site audits of agents for compliance with the declination requirements. Finally, the Company's internal audit department shall complete an independent assessment of the effectiveness of these new procedures by June 30, 2011, and report the results of the audit to the Division.

Subsequent Actions: The Company has agreed to implement the above required actions.

STANDARD VI-8

Findings: None.

Observations: Based upon testing, Company-initiated cancellation, non-renewal and declination notices, when available, appeared to be timely provided with the reason for the action properly disclosed. For eight of the 11 private passenger automobile declinations, the Company could not provide copies of the declination notices issued by the producers. Further, since the Company had no record of homeowners' declinations provided by agents on the Company's behalf during the examination period, homeowners' declinations could not be tested as noted in Standard VI-7.

Required Actions: The Company shall require that agents retain copies of notices provided to applicants, who were declined for private passenger automobile coverage for a five year period. The Company shall also obtain from the agents or through its agency interface system, a quarterly listing of such applicants receiving declination notices. The quarterly listing shall be used to complete on-site audits of agents for compliance with the declination requirements. Finally, the

Company's internal audit department shall complete an independent assessment of the effectiveness of these new procedures by June 30, 2011, and report the results of the audit to the Division. Regarding homeowners' declinations, see the required actions in Standard VI-7.

Subsequent Actions: The Company has agreed to implement the above required actions.

STANDARD VI-17

Findings: None.

Observations: Based upon testing, the Company is generally using underwriting, rating and classification guidelines based on adequate information developed at or near inception of coverage. However, as a result of testing complaints filed with the Division, RNA noted one instance when the Company did not verify the validity of the foreign driver's license for the application of the drivers' experience credit at the inception of coverage, as required by Company policy. The Company instead relied on the foreign driver's record as stated by the applicant at the application date. The Company subsequently denied a claim submitted by the policyholder based upon material misrepresentation, since it determined the foreign driver's record submitted at the application date was fraudulent.

Required Actions: The Company shall ensure that its policies and procedures require consistency in underwriting due diligence for all risks accepted. The underwriting due diligence procedures, including but not limited to, the review of a valid foreign drivers' license and the application of a foreign drivers' experience credit, shall be completed at or near the inception of coverage, rather than after a claim is filed. This shall include risks where an applicant's current carrier's policy declaration page is used to accept the risk. Finally, the Company shall clarify to producers and Company employees these underwriting policies and procedures.

SECTION VII-CLAIMS

STANDARD VII-6

Findings: None.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for handling claims are functioning in accordance with its policies, procedures and statutory requirements. Further, upon evaluation of claims-related complaints, such claims generally appeared to be properly handled. However, in one isolated instance, the Company failed to establish a valid towing claim due under the related policy.

Recommendations: The Company should ensure that all claims are properly established upon the filing of such claims. Further, the Company should conduct appropriate training for claims specialists regarding these procedures.

COMPANY BACKGROUND

The Company was founded in 1972 and is headquartered in Webster, Massachusetts. The Company offers private passenger automobile coverage, commercial automobile coverage, homeowners and commercial multi-peril coverage in Massachusetts and New Hampshire. The Company was a subsidiary of a holding company that was publicly traded on the New York Stock Exchange, until the holding company was acquired by MAPFRE S.A. ("MAPFRE"), a Spanish financial services company, effective June 2008. MAPFRE ranks as the largest non-life insurance group in Latin America and the tenth largest non-life insurance group in Europe with a presence in 43 countries, and a network of almost 51,000 agents around the world. MAPFRE is controlled by a not-for-profit charitable organization, Fundación MAPFRE.

Commerce has strong contractual relationships with over 700 independent insurance agents who sell its policies. Commerce is the largest insurer of private passenger automobile coverage in Massachusetts, with over 1 million vehicles insured with more than 25% of the market. Commerce and Citation, combined, are the largest providers of homeowners' coverage in Massachusetts, with approximately 9% of the market. The Company is also the second largest insurer of commercial automobiles in Massachusetts. Preferred risks in the commercial automobile and homeowners lines of business are written in Citation, while all other risks are written in Commerce.

Massachusetts has significantly changed its automobile insurance market within the past year, by moving to a competitive rating environment with a traditional residual risk market for high risk insureds. The Exclusive Representative Producer ("ERP") system and Commonwealth Automobile Reinsurers ("CAR") cession model for high risk insureds are slowly being dismantled. As a result, significant new competition has entered or is expected to enter the Massachusetts market, putting downward pressure on market rates.

The Company is rated A+ (Superior) by A.M. Best, and its ratings were stable over the examination period. The Company's statutory surplus as of December 31, 2008 is $977.8 million with statutory admitted assets of approximately $2.6 billion.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements and MAPFRE's financial statements are audited annually by an independent accounting firm.
- The Company's corporate compliance committee is primarily responsible for reviewing policies and procedures related to corporate record retention, information technology security and human resource compliance matters.
- The Company's General Counsel's Office is responsible for oversight of state and Federal regulatory compliance requirements, monitoring compliance with the Company's Code of Conduct and coordination of state insurance department market conduct examinations.
- The Company's internal audit function reports jointly to MAPFRE's director of internal audit and to the President and Chief Executive Officer of MAPFRE USA Corp. ("MAPFRE USA"). The internal audit function regularly provides reports to the audit committee of the Company and MAPFRE USA.
- An internal audit plan is developed by the internal audit staff using a risk-assessment approach that covers operational and financial areas for MAPFRE's North American operations. The audit plan is approved by the Company's and MAPFRE USA's audit committees and MAPFRE's director of internal audit.
- The Company conducts periodic internal audits for compliance with Company policies and procedures including key internal controls. Written audit reports are prepared for each completed audit, and submitted to MAPFRE's director of internal audit and Company management. A summary of each audit and any findings are provided to the audit committees of the Company and MAPFRE USA. The Company responds to internal audit recommendations and corrects, modifies and implements new procedures as necessary.
- The Company's claim's function has a claims audit department ("CAD"), which periodically conducts extensive audit procedures on various claim functions.
- The Company conducts periodic audits of producer operations to ensure that statutory and regulatory guidelines for automobile policies are properly implemented.
- The underwriting department completes quality assurance audits of new and renewal business, and endorsements for employee training and compliance with Company policies and procedures.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules of Operation. CAR is the industry operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing private passenger 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 reviewed various internal audit reports, CAD reports, underwriting quality assurance audits and CAR audits to evaluate procedures performed and results obtained. Issues noted in such reports were further investigated and discussed with management.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: The internal audit reports, CAD reports, underwriting quality assurance audits and CAR audits reviewed by RNA provided detailed information on the procedures performed, audit findings and recommendations for improvement. The review of these audits indicated that the Company is generally in compliance with policies, procedures and regulatory requirements. See Standard VI-25 and VII-14 for additional discussion with regard to CAR audit results.

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 recently completed statutory financial examination of the Company.

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

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

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

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 ("Act"), it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or breach of trust or certain other offenses, and who willfully engages in the business of insurance as defined in the Act. In accordance with Division Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts must notify the Division in writing of all employees and producers affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

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

- The Company has a written plan to address fraud throughout the organization.
- The Company has a Special Investigative Unit ("SIU"), which includes approximately 40 staff dedicated to the prevention and handling of fraudulent activities.
- The SIU function has extensive written policies, guidelines and procedures to address claim fraud prevention. All automobile theft claims are handled by the SIU.

- The Company adheres to SIU standards established by CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- Potentially fraudulent activity is tracked by the SIU and investigated with the assistance of other departments as necessary. Significant fraud activity is reported to the Insurance Fraud Bureau ("IFB").
- The Company has instituted a whistleblower hotline where any person can call and report a potential illegal act or fraud.
- The Company's policy is to seek the Division's approval regarding the hiring of any "prohibited person" in instances where the Company wishes to employ such a person.
- All new and prospective employees must attest on the employment application that they have not been convicted of a felony, or if they have, that they have received approval from the Division to engage in the business of insurance.

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

Transaction Testing Procedure: RNA reviewed the anti-fraud policies and procedures, and the work of the SIU, as part of various complaint, underwriting and claims standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of policies and procedures, it appears that anti-fraud initiatives are generally in place to detect, prosecute, and prevent fraudulent insurance acts. During review and testing of complaints, RNA noted that the Company regularly reports significant claim fraud to the IFB, but the Company often does not report other less significant fraud since such cases are frequently not accepted by the IFB for further review.

Recommendations: The Company should report all fraud cases to the IFB to allow them to use such information, in conjunction with other information from other sources, to investigate fraud as appropriate.

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 recently completed statutory financial examination of the Company.

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

Objective: This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements.

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

- The Company uses independent agents and ERPs, which are assigned by CAR, to sell the Company's products. The agent and ERP contracts describe the duties of the parties, licensing requirements, limitations of authority, maintenance of records, binding authority, claim reporting, commission rates, premium accounting, advertising, termination and suspension provisions, and errors & omissions coverage requirements. The contracts also give the producers exclusive control over expirations and the producers' records.
- The Company conducts periodic audits of producer operations to ensure that statutory and regulatory guidelines for automobile policies are properly implemented.
- The Company uses an unaffiliated vendor, CGI, Inc. ("CGI") to issue and rate private passenger automobile policies. All private passenger automobile business application information is entered into CGI's "Collaborative Edge" system by the agents and ERPs. A contract between the Company and CGI includes the duties of each party, compensation provisions, privacy requirements, regulatory requirements and termination provisions. A Statement on Auditing Standards ("SAS") No. 70, Service Organizations Report for CGI is prepared and reviewed annually by the Company.

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions. RNA also reviewed sample agent and ERP contracts.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf.

Controls Assessment: See Standard I-5.

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

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties who perform Company functions. As part of new and renewal business testing, RNA reviewed agent and ERP documentation that supports the new or renewal business sold. RNA also reviewed the SAS No. 70 Service Organizations Report for the period October 1, 2007 through September 30, 2008 for CGI.

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 on the Company's behalf, in compliance with statutory and regulatory requirements. The SAS No. 70, Service Organizations Report of CGI confirms that CGI's key internal controls are properly designed and are functioning as designed. The testing of underwriting declinations is contained in Standards VI-7 and VI-8.

Recommendations: None.

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

Objective: This Standard addresses the adequacy and accessibility of the Company's records.

Controls Assessment: The Company has adopted written record retention requirements, including the length of time specific documents must be retained.

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

Transaction Testing Procedure: RNA inquired about the Company's record retention policies and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policies appear reasonable. Testing results relating to documentation evidence are 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.

M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard addresses whether the lines of business being written by a Company are in accordance with the authorized lines of business.

Pursuant to M.G.L. c. 175, § 32, domestic insurers must obtain a certificate authorizing it to issue policies or contracts. M.G.L. c. 175, § 47 sets forth the various lines of business for which an insurer may be licensed.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the 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.

M.G.L. c. 175, § 4.

Objective: This Standard addresses the Company's cooperation during the course of the examination.

M.G.L. c. 175, § 4 sets forth the Commissioner's authority to conduct examinations of an insurer.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard addresses the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of consumers.

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

Controls Assessment: The following controls were noted in review of Standards I-10 through I-17:

- Company policy requires that a consumer privacy notice be provided to applicants when a new application is taken, and when coverage is bound. The notice is also included with policy declaration pages when the policy is delivered.
- The annual privacy notice is provided to customers with renewal notices. The Company also provides the annual privacy notice on its website as well as their internet privacy policy.
- Company policy allows for the sharing of customer and personal information with affiliates and non-affiliates who provide services to the Company. Company policy is to disclose information only as required or permitted by law to regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions for its customers. The notice states that consumers have rights to access and to correct inaccuracies in this information.
- The Company does not sell or share information with anyone for marketing purposes. As such, there is no need to provide policyholders with "opt out" rights. The Company states that they do not obtain investigative consumer reports on customers as part of underwriting, and that they do not conduct pretext interviews.
- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information. The Company annually conducts an information systems risk assessment to consider, document and review information security threats and controls. 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.
- The SAS No. 70, Service Organizations Report for CGI addresses the adequacy of information technology privacy controls.

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 compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed claims documentation for any evidence of the use of pretext interviews.

Transaction Testing Results:

Findings: None.

Observations: The Company's privacy practices appear to minimize any improper intrusion into applicants' and policyholders' privacy, and are disclosed to policyholders in accordance with the Company's policies and procedures. Further, based upon the results of claims testing, RNA noted no evidence of the use of pretext interviews.

Recommendations: None.

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

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

The objective of this Standard relates to privacy matters and is included in Standards I-10 and I-12 through I-17.

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

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

Objective: This Standard addresses the Company's policies and procedures to ensure it protects the privacy of non-public personal information.

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

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 parties other than the applicant.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: Based up review and testing, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to parties other than the applicant.

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 non-public personal financial information.

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

Objective: This Standard addresses the Company's practice of providing privacy notices to customers and consumers.

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation its supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 40 private passenger automobile policies and 10 homeowners policies issued during the examination period, to test whether a proper privacy notice was provided.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient privacy notice to applicants regarding its treatment of non-public personal financial information, in accordance with Company policy.

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 non-public 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.

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

Objective: This Standard addresses policies and procedures with regard to opt out rights.

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

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.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: The Company does not share nonpublic personal financial information with anyone for marketing purposes. Thus, the Company is not required to offer an "opt out" for such information sharing.

Recommendations: None.

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

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

Objective: This Standard addresses the Company's policies and procedures regarding collection, use and disclosure of non-public personal financial information.

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

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. 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 review and testing, the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses non-public personal

financial information. RNA noted no instances where the Company improperly collected, used or disclosed non-public 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.

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

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information.

HIPAA Public Law §§ 104-191 and 45 CFR Parts 160 and 164 set forth proper procedures for inquiry, release, disclosure and maintenance of non-public personal health information.

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. RNA also reviewed claims documentation for any evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing of claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company's policies and procedures provide reasonable assurance that the Company properly protects non-public personal health information. RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of claims.

Recommendations: None.

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

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

Objective: This Standard addresses the Company's information security efforts to ensure that non-public consumer information is protected.

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

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. Review of information technology access and authorization controls is also included in the scope of the Division's recently completed statutory financial examination of the Company.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: Based upon review of the Company's information security policies and procedures, it appears that the Company has implemented an information security program which provides reasonable assurance that its information systems protect nonpublic customer information.

Recommendations: None.

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.

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute.

Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints it received from the date of its last examination. The record must indicate the total number of complaints, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint and the time taken to process each complaint.

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

- Complaint handling procedures are documented in the Company's web portal.
- The Company considers any written complaint or grievance received from the Division, Attorneys General, insurance regulators or the Better Business Bureau, and any claims-related complaints from consumers, as formal complaints. Since the vast majority of formal complaints are claims-related, the Company's formal complaint coordinator resides within the claims department. Non-claim-related formal complaints are coordinated with the appropriate department. The formal complaint register also includes formal complaints related to Citation.
- Litigation, allegations of unfair and deceptive trade practices ("Chapter 93A allegations") and allegations of discrimination are not considered formal complaints, and are handled directly by the legal department.
- All formal complaints received from the Division are to be responded to within the Division's 14 day response timeframe. If more time is needed, the Company asks the Division for additional time to respond.
- All formal complaint responses require the review of a supervisor or manager in the business unit prior to providing the complaint response.
- Formal complaints are logged into a database, the elements of which include a claim number, complaint number, type of claim, source, insured, complainant, response handler, complaint nature, state, assigned department, disposition, received date, due date and closed date. These database elements are contained in the formal complaint register.
- All other grievances that are not formal complaints, which include written non-claim complaints directly received from consumers, are deemed consumer complaints and are handled directly by the individual business units, which separately log and track these complaints. The consumer complaint register also includes consumer complaints related to Citation.
- The consumer complaint databases in each department include database elements such as complainant, source, agent, policy number, function, state, type, reason, action taken, received date and response date. These database elements are contained in the consumer complaint register.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries, and on its web site.

- The Company monitors formal complaint handling activity through the preparation of a quarterly formal complaint trend report showing formal complaints by type of claim, or department assigned. This report is provided to senior management and the Company's executive committee.
- The Company monitors consumer complaint activity in each individual department.

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 formal and consumer complaint registers to evaluate the Company's compliance with the provisions of M.G.L. c. 176D, § 3(10) noted above, and evaluated the summarization of formal complaint activity reported to management in complaint trend reports. RNA also reviewed the Company's formal complaint registers from 2007, 2008 and 2009 for completeness to determine whether they properly contained 106 Division complaints. Finally, RNA reviewed formal complaint trend reports prepared by management during the examination period.

Transaction Testing Results:

> _Findings_: RNA noted that the Company's formal and consumer complaint registers included all statutorily-required database elements. However, in the formal complaint register, the "nature of the complaint" database element was only completed for claims-related complaints from consumers, but was not completed for Division and other complaints. The omission of this database element does not facilitate complaint reporting by the specific nature of the complaints. Further, RNA noted that 10 of the 106 Division complaints tested were not properly included in the 2007, 2008 and 2009 formal complaint registers. Finally, the Company could not locate documentation supporting five of these 10 complaints. Each of these three findings are not in compliance with M.G.L. c. 176D, § 3(10).
>
> _Observations_: The Company timely prepared quarterly formal complaint trend reports showing formal complaints by type of claim or department assigned.

Required Actions: The Company shall begin capturing the specific nature of each formal complaint, and including that database element in the formal complaint register in all instances. This will allow complaint reporting to include classification by the specific nature of the complaints in the quarterly formal complaint trend report for use by senior management and the executive committee. To address the completeness of the formal complaint register, the Company's newly created procedure to perform an independent check of the completeness of the formal complaint register shall continue to be conducted at least monthly. The Company shall also revise its complaint handling procedures to ensure that all complaints are properly maintained for a five-year period. The internal audit department shall complete an independent audit of the effectiveness of these new procedures by June 30, 2011, and report the results of the audit to the Division and annually thereafter until the next scheduled market conduct examination.

Further, the Company shall consolidate all written complaints in one complaint register, since written complaint procedures are statutorily required. This will ensure that all written complaints can be consistently handled, easily monitored and fully summarized for trend reporting. Further, the Company shall consider maintaining separate complaint registers for each statutory entity, or consider segregating the complaint registers by statutory entity, for ease of analysis in that manner.

Subsequent Actions: Effective September 1, 2010, the Company has begun capturing the specific nature of each formal complaint in the formal complaint register. The Company has also consolidated all written complaints in one complaint register. The Company continues to perform the monthly completeness check of the formal complaint register, and an auditor from the claims audit department will, on a quarterly basis, sample complaints to ensure that the register is accurately maintained. Finally, the Company has revised its complaint handling procedures to ensure that all complaints are maintained for a five-year period.

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

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company has adequate complaint handling procedures, and communicates those procedures to policyholders and consumers.

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

Controls Assessment: 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 97 Division complaints, and two complaints received directly from consumers, from 2007, 2008 and 2009, to evaluate the Company's compliance with the provisions of M.G.L. c. 176D, § 3(10) noted above. RNA reviewed the complaint handling for each of these complaints, including the adequacy of documentation supporting the facts and resolution of each complaint. In addition, RNA reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

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 policyholders and consumers.

Recommendations: None.

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

Objective: This Standard addresses whether the Company's response to the complaint fully addresses the issues raised, and whether policyholders or consumers with similar fact patterns are treated consistently and fairly.

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 97 Division complaints and two complaints received directly from consumers from 2007, 2008 and 2009, to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: RNA noted that the Company fully addressed the issues raised in the complaints tested. Documentation for the complaints appeared complete, including the original complaint and related correspondence. It appears that complainants with similar fact patterns are treated consistently and reasonably.

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.

Massachusetts does not have a specific complaint processing time standard in statute or regulation. The Division has established a practice of requiring that insurers respond to complaints from the Division within 14 calendar days from the date they receive a notice of a complaint.

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 45 Division complaints and two complaints received directly from consumers from 2007, 2008 and 2009, to evaluate the Company's complaint response times.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: The Company appeared to address timely each of the tested complaints within 14 days, unless additional time to respond was approved 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.

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

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

<u>Objective</u>: 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.

Pursuant to M.G.L. c. 176D, § 3, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. Pursuant to Division Bulletin 2001-02, an insurer who maintains an Internet website must disclose on that website the name of the company appearing on the certificate of authority and the address of its principal office.

<u>Controls Assessment</u>: The following controls were noted as part of this Standard:

- The Company has adopted written policies and procedures for review and use of advertising and sales materials, including a provision in agent contracts requiring agents' adherence to such procedures.
- The legal department maintains a log of all submitted advertising and marketing materials, which are to be reviewed and approved by the Company's legal department prior to use. The log documents the date of the reviewer's approval.
- The Company discloses its name and address on its website.

<u>Controls Reliance</u>: 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.

<u>Transaction Testing Procedure</u>: RNA interviewed Company personnel with responsibility for reviewing, approving and maintaining sales and advertising materials, and obtained supporting documentation. RNA obtained a list of advertising and sales materials utilized during the examination period, and selected several pieces for evidence of approval prior to use. RNA also reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed sales and marketing materials for any evidence of the use of unapproved materials as part of new and renewal business testing.

<u>Transaction Testing Results</u>:

<u>Findings</u>: None.

<u>Observations</u>: The results of RNA's testing showed that the Company's advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3. The standard agency contract requires that home office approval be obtained prior to use of agent-developed advertising material. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02.

<u>Recommendations</u>: None.

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

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

<u>Controls Assessment</u>: The following controls were noted as part of this Standard:

- The Company has distributed producer training materials focusing on Company policies, practices and procedures, including those relating to underwriting and rating, policyholder service, and claims.
- The Company's producers have access to electronic policy and procedure manuals through the Company's agent web portal.

<u>Controls Reliance</u>: 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.

<u>Transaction Testing Procedure</u>: RNA interviewed Company personnel with responsibility for developing and distributing producer training materials, and reviewed such materials in use during the examination period for accuracy and reasonableness.

<u>Transaction Testing Results</u>:

<u>Findings</u>: None.

<u>Observations</u>: Based upon review and testing, the Company's producer training materials appear accurate and reasonable.

<u>Recommendations</u>: None.

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

<u>Objective</u>: 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.

<u>Controls Assessment</u>: See Standard III-2.

<u>Controls Reliance</u>: See Standard III-2.

<u>Transaction Testing Procedure</u>: RNA interviewed Company personnel with responsibility for developing and distributing producer communications, and reviewed several such communications to producers during the examination period for accuracy and reasonableness.

<u>Transaction Testing Results</u>:

<u>Findings</u>: None.

<u>Observations</u>: Based on review, procedures for communications to producers generally appear appropriate and reasonable.

Recommendations: None.

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

M.G.L. c. 175, § 193R.

Objective: This Standard is concerned with whether the Company's mass marketing efforts are in compliance with applicable statutes, rules and regulations.

Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby motor vehicle or homeowner insurance is afforded to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

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

- Written underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges.
- The Company provides the same premium discount of 3-10% to each member of various affinity groups.
- Premium discounts available to affinity groups are filed with and approved by the Division.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the marketing and underwriting processes. RNA selected a sample of 60 private passenger automobile policies issued or renewed during the examination period, noting that three of these policies included affinity group discounts. RNA tested these three private passenger automobile policies, and verified that applicable affinity group discounts were properly applied and were approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing of private passenger automobile policies, it appears that each of the premium discounts given to affinity group members was properly applied and was approved by the Division.

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.

<u>Standard IV-1</u>. Regulated entity records of licensed and appointed (if applicable) producers agree with insurance department records.

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

<u>Objective</u>: The Standard addresses licensing and appointment of the Company's producers.

M.G.L c. 175, § 162I requires that all persons who solicit, sell or negotiate insurance in the Commonwealth be licensed for that line of authority. Further, any such producer shall not act as an agent of the Company unless the producer has been appointed by the Company pursuant to M.G.L c. 175, § 162S. Pursuant to 18 U.S.C. § 1033 of the Act, it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers acting as agents who are affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

<u>Controls Assessment</u>: The following controls were noted in review of this Standard:

- The Company's appointment procedures are designed to comply with statutory requirements, which require that a producer who is to be appointed as agent, must be appointed within 15 days from the date the agent's contract is executed.
- The Company's policy is to seek the Division's approval regarding the appointment of any "prohibited person" as noted above, in instances where the Company wishes to appoint such a person as agent.
- The Company maintains an automated producer database that tracks all producer terminations, appointments and other licensing changes relating to appointed agents and ERPs.
- The Company verifies that producers are properly licensed for the lines of business to be sold in Massachusetts, prior to contracting with them as agents.
- The Company's producer database tracks appointed agents' license expiration dates. Notices are sent to agents as a reminder to renew their licenses and submit appropriate documentation to the Company. Company personnel will follow up with the agent if documentation of renewal is not received timely.
- The Company prepares a quarterly reconciliation of its agent appointment list to the Division's list.
- The Company uses a standard contract requiring its agents to maintain $1 million in errors and omissions coverage. Other standard terms and conditions address proper licensure, maintenance of records, binding authority, claim reporting, commission rates, premium accounting, advertising, and contract termination and suspension provisions. The contract also gives the agent exclusive control over policy expirations and the agent's records.
- The ERP contract is similar to the standard agency contract, but modified to recognize the relationship as regulated by CAR.

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 reviewed evidence of agent appointments or ERP assignments in conjunction with new and renewal business testing of 60 private passenger automobile, seven commercial automobile, 15 homeowners' and nine commercial property/liability policies issued or renewed during the examination period. RNA verified that the agent for each policy was included on the Division's list of the Company's appointed agents, or that the ERP assigned by CAR was a licensed producer at the time of sales.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's agents were properly licensed and appointed, and all the ERPs were properly licensed at the time of the sales.

Recommendations: None.

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

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

Refer to Standard IV-1.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: This Standard addresses the Company's termination of producers in accordance with applicable statutes requiring notification to the state and the producer.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent, and the reasons for which the Division may terminate a producer's license.

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

- The Company's policy is to notify the Division of agent terminations as required by statute.
- The Company's policy is to notify the Division of the reason for agent terminations when the termination is "for cause."
- The Company's policy is to notify CAR and the Division when an ERP is terminated.

- The Company has a process for notifying agents that their appointments have been terminated, and for notifying ERPs that their assignments have been terminated, which complies with statutory, regulatory and contractual requirements.

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 termination processing. RNA selected 14 terminated agents from the Company's termination listing and the Division's termination records, compared the termination information on both listings, and reviewed evidence that notice to the Division and the agents complied with statutory requirements. Further, RNA selected three terminated ERPs and reviewed evidence that the notice to the ERP, CAR and the Division was timely.

Transaction Testing Results:

> *Findings*: RNA noted that the Company gave advance notice to the Division for two agent terminations, without accurately stating the termination effective dates. In addition, when the effective date of one of these terminations was subsequently changed, this was not communicated to the Division. A third agent termination was not reported in the required format to the Division. As such, the Company was not in compliance with M.G.L. c. 175 § 162 T.
>
> *Observations*: Based upon testing, the Company's notification of 11 of 14 agent terminations to the Division and the agents was in compliance with statutory requirements. Further, notification of ERP terminations was timely made to the ERP, CAR and the Division.

Required Actions: The Company shall ensure that accurate effective dates of the agent terminations are timely communicated to the Division through the OPRA system. When such agent terminations are reported in advance of the termination effective dates, or when the termination effective dates change, the Company shall notify the Division accordingly. The Company's internal audit department shall conduct an audit of agent terminations to be completed by June 30, 2011 to test for timely and proper reporting to the Division. The results of the audit shall be reported to the Division once the audit is completed.

Subsequent Actions: The Company states that it has adopted a new policy and procedure to require that all agent terminations be processed through OPRA.

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 producer appointments and terminations do not unfairly discriminate against policyholders.

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 60 private passenger automobile, seven commercial automobile, 15 homeowners' and nine commercial property/liability policies issued or renewed during the examination period, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's producer 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 producer appointment and termination policies.

Recommendations: None.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: The Standard addresses the Company's documentation of the reasons for producer terminations.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent, and the reasons for which the Division may terminate a producer's license.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and termination processing. RNA selected 14 agents and three ERPs terminated during the examination period, and reviewed the reasons for each termination. RNA also inquired about any agent or ERP that was terminated "for cause" during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's internal records adequately document reasons for agent and ERP terminations. One agent and one ERP were terminated "for cause" as defined by statute during the examination period. The reasons for both terminations were provided to the Division in accordance with policies, procedures and statutory requirements.

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination because the Company direct bills premium, thus excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the scope of the recently completed statutory financial examination of the Company.

V. POLICYHOLDER SERVICE

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

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

M.G.L. c. 175, §§ 193B and 193B ½.

<u>Objective</u>: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due.

Pursuant to M.G.L. c. 175, §§ 193B and 193B ½, premiums may be paid in installments with interest charged on the unpaid balance due as of the billing date.

<u>Controls Assessment</u>: The following controls were noted in review of this Standard:

- The policyholder receives a renewal and billing notice from the Company 30 days prior to the effective date of the renewal. The agent later sends a policy declaration page indicating the coverage type and limits with the applicable premium. Billing notices are generated automatically through the policy administration system approximately 24-30 days before payments are due.
- The agent usually collects and remits to the Company the 25% premium downpayment required for private passenger automobile new business. A 20% premium downpayment is required for new affinity group private passenger automobile business. A 10% premium downpayment is required for renewal business by the renewal's effective date. The remaining premium is billed in nine installments, with a fee of $5 per installment. The entire premium must be paid in advance by anyone whose coverage was cancelled due to non-payment of premium by any company within the past 24 months. For electronic funds transfer, 12% down is required with the remainder paid in 10 installments with no monthly fee.
- The agent usually collects and remits to the Company the 10% downpayment required for homeowners' new and renewal business. The remaining premium is billed in nine installments with a fee of $4 per installment. Consumers also can elect the "E-Z-3" plan, which requires full payment in the first 180 days. Electronic funds transfer is also available.
- The agent usually collects and remits to the Company the 30% premium downpayment required for commercial automobile and commercial property/liability new business coverage. A 20% downpayment for renewal business is required by the renewal's effective date. The remaining premium is billed in nine installments with a monthly charge of 1.25% on the unpaid balance. The entire premium must be paid in advance by anyone whose coverage was cancelled by any company due to non-payment of premium within the past 24 months.
- Approximately 60 customer service call center representatives answer questions from policyholders and agents about billing. The Company has developed standards for customer service call center representatives, and monitors compliance with those standards.

<u>Controls Reliance</u>: 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.

<u>Transaction Testing Procedure</u>: RNA interviewed Company personnel with responsibility for policyholder service, and reviewed billing notice dates and installment fees charged, in conjunction with new and renewal business testing for all lines of business.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of billing notices and installment fees charged, billing notices appeared to be mailed with an adequate amount of advance notice. Monthly service charges on installment payments appeared to be properly applied.

Recommendations: None.

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

M.G.L. c. 175, § 187B; Division Bulletin 2008-10.

Objective: This Standard is concerned with whether the Company has cancellation procedures to ensure that such policyholder requests are processed timely. Policy issuance testing is included in Standard VI-6. Return of premium testing is included in Standard V-7.

Pursuant to M.G.L. c. 175, § 187B, insurers are required to return premium in a reasonable time upon the policyholder's request to cancel. Division Bulletin 2008-10 requires private passenger automobile insurers to accept transfer requests from other insurers.

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

- An automobile policyholder may cancel his or her policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service or evidence that the policyholder has moved out of Massachusetts.
- Company policy is to cancel a policy upon notification from the agent of the policyholder's request, and to process premium refunds in a timely manner.
- All unearned premium is refunded to the policyholder on a pro-rata basis pursuant to statutory and regulatory guidelines.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested five private passenger automobile, three commercial automobile, five homeowners' and three commercial property/liability insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has approximately 60 customer service call center representatives who answer policyholders' general questions about their policies or billing matters.
- The Company considers its agents as having the primary relationship with the policyholder, and since customer service representatives are not licensed producers, policyholders must request endorsements and policy changes through the agent. If a policyholder requests such changes through customer service, the policyholder can be transferred to the agent for servicing.
- The Company monitors customer service call response times, call abandon rates and individual customer service representatives' time use, to ensure that adequate resources are available to address customer inquiries.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed correspondence in conjunction with underwriting, rating, policyholder service and claims standards. Additionally, RNA obtained documentation showing customer service representatives' compliance with time and service standards.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Objective: This Standard addresses procedures for the accurate and complete processing of policy transactions. Objectives pertaining to policy issuance, renewal and endorsements are included in Standard VI-6. Billing transactions are reviewed in Standard V-1, and insured-requested cancellations are tested in Standard V-2. Return of premium testing is included in Standard V-7. Company cancellations and non-renewals are tested in Standards VI-7, VI-8 and VI-24.

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

M.G.L. c. 200A, §§ 1, 2, 7-7B, 8A and 9.

Objective: This Standard addresses efforts to locate missing policyholders or beneficiaries, and to comply with escheatment and reporting requirements.

M.G.L. c. 200A, §§ 1, 2, 7-7B, 8A and 9 state that amounts due policyholders or beneficiaries are presumed abandoned if unclaimed for more than three years after the funds become payable. Annual reporting to the State Treasurer's Office regarding efforts to locate owners is required, and the statutes require payments to the State Treasurer's Office for escheated property.

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

- Company policy requires that un-cashed checks including claims and premium refunds be reported and escheated when the owner cannot be located.
- The Company has implemented procedures to locate lost owners via Company records and public databases. For un-cashed checks, the Company conducts further research and sends a letter to the last known address in an attempt to locate the owner.
- The Company annually reports escheatable funds to the State Treasurer by November 1st as required by law. Prior to escheatment of funds, a final attempt is made to locate the owner.

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

Transaction Testing Procedure: RNA discussed with Company personnel the Company's procedures for locating missing policyholders and claimants, and for escheating funds, and reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 113A, 176A, 187C and 187D; 211 CMR 85.00.

Objective: This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled.

Pursuant to M.G.L. c. 175, § 187C, written notices of cancellations are required from insurers. Pursuant to M.G.L. c. 175, § 187D, insurers have the right to cancel a policy for non-payment of premium. M.G.L. c. 175, §§ 113A and 176A, and 211 CMR 85.00, provide that insureds are entitled to return premium calculated on a pro rata basis within 30 days of the cancellation of a motor vehicle policy

Controls Assessment: See Standard V-2.

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 five private passenger automobile, three commercial automobile, five homeowners' and three commercial property/liability insured-requested cancellations from the examination period, to test for proper premium refund calculation and timely payment, where appropriate..

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium refunds appear to be calculated properly and returned timely.

Recommendations: None.

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

Objective: This Standard addresses the Company's procedures to provide history and loss information to insureds in a timely manner.

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

- The Company's producers and its claims personnel have access to claims history and paid loss information for personal lines policyholders from a statewide automobile claim database, and a private Comprehensive Loss Underwriting Exchange database.
- When requested by the policyholder, the Company's policy is to directly provide, or ask the producer to provide, the policyholder with his or her claims history and paid loss information.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 174A, §§ 5, 6, and 9; M.G.L. c. 175A, §§ 5, 6 and 9; M.G.L. c. 175E, §§ 4 and 7; M.G.L. c. 175, §§ 113B, 111H and 193R; 211 CMR 56.04, 79.00, 91.00, 131.00 and 134.00; Division Bulletins 2008-04, 2008-08, 2008-09 and 2008-11.

Objective: This Standard addresses whether the Company is charging premiums using properly filed rates.

Pursuant to M.G.L. c. 174A, § 5, rates for fire, marine and inland marine coverage shall be experienced based and not unfairly discriminatory. Affiliates may make the same rate filings or use the same rates. Pursuant to M.G.L. c. 174A, § 6, insurers shall file rates with the Commissioner 15 days before their effective date. Pursuant to M.G.L. c. 174A, § 9, members of rating organizations must use their filed rates, or must file separate rates. Pursuant to M.G.L. c. 175A, § 5, rates for commercial insurance shall be based on experience and shall not be unfairly discriminatory. Affiliates shall have the right to make the same filings or to use the same rates. Rates shall not be excessive, inadequate or unfairly discriminatory, and must be filed with the Commissioner as provided by M.G.L. c. 175A, § 6 prior to use. Insurers must also use filed rates, unless they obtain approval for a rate deviation, as set forth in M.G.L. c. 175A, § 9.

Pursuant to M.G.L. c. 175E, § 7 and 211 CMR 79.00, every insurer, or rating organization authorized to file on behalf of such insurer, shall file with the Commissioner every manual of its classifications, rules and rates, rating plans and modifications of any of the foregoing, not less than 45 days before the effective date thereof. Pursuant to M.G.L. c. 175, § 113B, various discounts and surcharges are statutorily mandated. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. Pursuant to M.G.L. c. 175E, § 4, rates shall not be excessive, inadequate or discriminatory, and shall be discounted 25% for insureds age 65 or older. Pursuant to 211 CMR 56.04, premium discounts are mandated for election of optional repair shop endorsement plans. M.G.L. c. 175, §111H requires that insurers cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. 211 CMR 91.00 governs activities of rating organizations, form and content of automobile rate filings and the conduct of related hearings. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing, and 211 CMR 134.00 requires each driver to receive a step rating according to the Safe Driver Insurance Plan, which requires corresponding discounts and surcharges.

Division Bulletin 2008-04 discusses procedures for filing forms and rates for commercial terrorism coverage and required disclosures. Division Bulletin 2008-09 outlines guidelines for filing rate and form filings for all lines of business. Division Bulletins 2008-08 and 2008-11 outline requirements for rate terms for private passenger automobile risks in the residual and voluntary markets.

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.
- Producers enter automobile application data and billing mode information on-line using CGI, Inc.'s Collaborative Edge system, which is licensed to the Company for its use. The Collaborative Edge system is an automated system used to quote and rate automobile policies.
- Effective April 1, 2008 private passenger automobile rates, previously fixed and established by the Commonwealth, are filed with the Division and approved prior to use.
- 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 offers private passenger automobile affinity group discounts which are approved by the Division.
- The low mileage discount form, which verifies actual private passenger automobile mileage, must be completed annually to receive the low mileage discount.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producers.
- The Company's underwriting department conducts annual field audits of all ERPs, as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- Commercial automobile rates are determined by CAR for those risks ceded to CAR, and such rates are filed with the Division. Otherwise, all other commercial automobile rates are filed with the Division for approval prior to use.
- Company policy requires that homeowners and commercial property/liability rates are based on Insurance Services Office ("ISO") rates, and the Company files such rates with the Division for approval to comply with statutory and regulatory requirements.
- Homeowners rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and automobile coverage, seniors, new construction, security features, safety features, multi-year renewals, and higher deductibles.
- Commercial property/liability rating criteria include territory, coverage amount and type, property age, protection class and structure type. For business owner policies, rates are generally based on the number of employees, payroll and type of business code.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information. In conjunction with new and renewal business testing, RNA selected 18 private passenger automobile, two commercial automobile, 11 homeowners and six commercial property/liability policies issued or renewed during the examination period, to test rate classifications and premiums charged. RNA verified that each policy's premium, discounts and surcharges complied with statutory and regulatory requirements, and with the Company's rates filed with the Division.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L c. 174A, § 11; M.G.L. c. 175A, § 11; M.G.L. c. 175E, §§ 11 and 11A; M.G.L. c. 175, §§ 99 and 99A; Division Bulletins 2008-04, 2008-05, and 2008-07.

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

Pursuant to M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11, the insurer will furnish any requested rate information to the insured in a timely manner. Pursuant to M.G.L. c. 175E, § 11, an information guide, which outlines available coverage choices and approximate cost differences among various types of coverage and among competing carriers, shall be provided upon application. Pursuant to M.G.L. c. 175E, § 11A, producers shall disclose coverage options in simple language to every person they solicit, including the option to exclude oneself and members of one's household from personal injury protection coverage. Pursuant to M.G.L. c. 175, § 99, fire policy form requirements include coverage for tenant relocation for landlord multi-unit residential property. Pursuant to M.G.L. c. 175, § 99A, fire policies must disclose exclusion of coverage for nuclear contamination. Division Bulletin 2008-04 discusses required disclosures and procedures for filing forms and rates for commercial terrorism coverage. Division Bulletin 2008-05 requires insurers to provide private passenger automobile consumers with a "Ways to Save Guide." Division Bulletin 2008-07 requires insurers to obtain written acknowledgement from applicants for automobile policies with a six month term.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers 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 provides private passenger automobile information guides to producers, who are required to provide them to consumers.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producers.
- The Company's underwriting department conducts annual field audits of all ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 60 private passenger automobile, seven commercial automobile, 15 homeowners and nine commercial property/liability 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.

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

Objective: This Standard addresses illegal rebating, commission cutting or inducements, and requires that producer commissions adhere to the commission schedule.

Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, the Company, or any agent thereof, cannot pay or allow, or offer to pay or allow any valuable consideration or inducement not specified in the policy or contract. Similarly, under M.G.L. c. 176D, § 3(8), it is an unfair method of competition to knowingly permit or make any offer to pay, allow or give as inducement any rebate of premiums, any other benefits or any valuable consideration or inducement not specified in the contract.

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

- The Company has procedures for paying producers' commissions in accordance with written contracts.
- 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 commission processing and producer contracting. 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 inducements. Also, in conjunction with new and renewal business testing, RNA selected 15 private passenger automobile, three commercial automobile, 11 homeowners and three commercial property/liability policies issued or renewed during the examination period, to test commissions paid to producers and to review for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: Based upon testing, the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with its policies, procedures and statutory requirements, and commissions paid adhere to commission schedules.

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.

M.G.L. c. 175E, § 4; M.G.L. c. 175, §§ 4C, 22E, 95B, 113K, 113N and 193T; M.G.L. c. 175A, § 5; M.G.L. c. 174A, § 5 and Division Bulletin 2008-17.

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting. See Standards VI-7 and VI-8 for testing of declinations.

Pursuant to M.G.L. c. 175E, § 4, automobile rates shall not be excessive, inadequate or discriminatory, and shall be discounted 25% for insureds age 65 or older. M.G.L. c. 175, § 4C states insurers may not discriminate based on race, color, religious creed, national origin or sex when issuing or renewing homeowners' policies. M.G.L. c. 175, § 22E, states that insurers may not refuse to issue or renew an automobile policy based on an insureds age, sex, race, occupation or marital status, or the vehicle's principal place of garaging. M.G.L c. 175, § 95B prohibits discrimination against abuse victims in residential property insurance sales. M.G.L c. 175, § 113K states a person aged 16 or older may purchase automobile insurance, and M.G.L. c. 175, § 113N prohibits medical exams as a condition of underwriting an automobile policy. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation or physical impairment, unless such discrimination is "based on sound actuarial principles or is related to actual experience." M.G.L. c. 175A, § 5 states rates for commercial automobile and multi-peril policies shall be based on past and prospective loss experience, a reasonable margin for underwriting profit and contingencies, investment income, unearned premium reserves and loss reserves, and shall not be excessive, inadequate or unfairly discriminatory. M.G.L. c. 174A, § 5 states fire rates for commercial multi-peril policies shall be based on past and prospective loss experience during a period of not less than the most recent five-year period for which such experience is available. Division Bulletin 2008-17 provides guidelines for placement of automobile policies with specific companies within a holding company system, or among risk categories within one company.

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

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Company policy is to accept all private passenger automobile risks, except the Company may decline a risk if the applicant, or any person who usually drives the motor vehicle, has failed to pay premiums during the preceding 12 months, or if the applicant does not hold, or is not eligible to obtain a driver's license.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Certain risks are referred to the underwriting department to determine whether they should be accepted or rejected.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 60 private passenger automobile, seven commercial automobile, 15 homeowners and nine commercial property/liability policies issued or renewed during the examination period, to test for evidence of unfair discrimination in underwriting.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting practices are unfairly discriminatory.

Recommendations: None.

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

M.G.L. c. 175, §§ 2B, 22A, 99, 99B, 111H, 113A and 192; 211 CMR 131.00; Division Bulletins 2008-04 and 2008-08.

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

Pursuant to M.G.L. c. 175, § 2B, policy form language, size and content standards for all policies must meet statutory requirements for readability and understanding. M.G.L. c. 175, §§ 22A and 113A require the filing of commercial automobile policy forms prior to use. M.G.L. c. 175, § 99 outlines policy form requirements, including coverage for tenant relocation for landlord multi-unit residential property. M.G.L. c. 175, § 99B outlines form authority and approval for commercial property and multi-peril condominium risks. M.G.L. c. 175, § 111H states insurers shall cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. Pursuant to M.G.L. c. 175, § 113A, insurers must give 20 days' notice to cancel, they must obtain a certificate of mailing receipt from post office, and return premium must be mailed. M.G.L. c. 175, § 192 states endorsements are part of policy forms, and must be filed with the Division prior to use. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing. Division Bulletin 2008-04 discusses procedures for filing forms and rates for commercial terrorism coverage and required disclosures. Division Bulletin 2008-08 outlines guidelines for rate and form filings for all lines of business.

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

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses the Automobile Insurer's Bureau of Massachusetts ("AIB") Massachusetts Private Passenger Automobile Form 7th Edition, which has been approved by the Division.
- Company policy requires that all homeowners and commercial policy forms and endorsements be filed and approved by the Division prior to use.
- Producers are required to use approved forms and endorsements when providing quotes to customers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 60 private passenger automobile, seven commercial automobile, 15 homeowners and nine commercial property/liability 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.

211 CMR 94.00.

Objective: This Standard addresses whether the Company issues policies and endorsements timely and accurately.

211 CMR 94.00 outlines required standards and procedures for pre-insurance inspections of motor vehicles, exemptions from such requirements and related provisions for suspension of physical damage coverage for no inspection.

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

- Producers enter automobile application data and billing mode information on-line using CGI, Inc.'s Collaborative Edge system, which is licensed to the Company for its use.
- Producers will electronically submit, fax, email or mail homeowners and commercial property/liability applications and other required documents to the Company for processing.
- Pre-insurance inspections are required for new coverage of used private passenger automobiles, unless the applicant has been insured with the Company for three consecutive years. Waivers from pre-insurance inspections are allowed for hardship reasons, a lack of inspection facilities near the applicant, producer book of business transfers, and for automobiles ten years and older.
- Changes in policy coverage must be requested through the producer, who must timely process such requests.
- The Company conducts compliance audits of its producers regarding required maintenance of underwriting information that is retained by the producers.
- The Company's underwriting department conducts annual field audits of all ERPs as required by CAR to ensure compliance with the Company's underwriting policies and procedures.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 60 private passenger automobile, seven commercial automobile, 15 homeowners and nine commercial property/liability policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely. Also, RNA selected 40 private passenger automobile policies issued during the examination period, to test whether the Company complied with pre-insurance inspection requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely. In addition, each of the tested private passenger automobile policies was issued in compliance with pre-insurance inspection requirements.

Recommendations: None.

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

M.G.L. c. 175, §§ 4C, 22E, 95B, 113D and 193T.

Objective: This Standard addresses the fairness of application rejections and declinations.

Pursuant to M.G.L. c. 175, § 4C, insurers may not discriminate based on race color, religious creed, national origin, sex, etc. when issuing or renewing homeowners' policies. M.G.L. c. 175, § 22E states insurers may not refuse to issue or renew an automobile policy based on an insured's age, sex, race, occupation or marital status, or the vehicle's principal place of garaging. M.G.L. c. 175, § 95B states insurers cannot discriminate against abuse victims in residential property insurance sales. Pursuant to M.G. L. c. 175, § 113D, automobile policyholders who are canceled or rejected for coverage can file a complaint within 10 days with the Board of Appeals. Policies continue in-force through the expiration date pending appeal. M.G.L. c. 175, § 193T states that insurers may not discriminate based on blindness, mental retardation or physical impairment, unless such discrimination is "based on sound actuarial principles or is related to actual experience."

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Company policy is to accept all private passenger automobile risks, except the Company may decline a risk if the applicant, or any person who usually drives the motor vehicle, has failed to pay premiums during the preceding 12 months, or if the applicant does not hold, or is not eligible to obtain a driver's license.
- Homeowners' applicants may be declined for coverage if the applicants do not meet minimum credit score thresholds set by the Company.
- Company policy requires producers to provide private passenger automobile and homeowners applicants with declination notices when applicants do not meet the Company's minimum standards for coverage.
- Commercial automobile and commercial property/liability risks may be declined by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected eight private passenger automobile, three commercial automobile, five commercial property/liability, and nine homeowners' Company-initiated cancellations for testing.

Additionally, two private passenger automobile non-renewals, two commercial automobile non-renewals, one homeowners' non-renewal, and 11 private passenger automobile declinations processed during the examination period were selected for testing, to ensure that cancellations, non-renewals and declinations were not unfairly discriminatory. RNA also requested data supporting homeowners' declinations processed during the examination period and evaluated the process for issuing homeowners' declinations based upon credit scores. Finally, RNA requested data supporting commercial automobile and commercial property/liability declinations processed during the examination period.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: Based upon testing, Company-initiated cancellations, non-renewals and declinations were not unfairly discriminatory. The Company reported no commercial automobile or commercial property/liability declinations during the examination period. RNA's review indicated that the Company's policy of using credit scores for homeowners' minimum underwriting requirements appears to comply with statutory and regulatory requirements. The Company was also unable to produce a record of homeowners' declinations provided by agents on the Company's behalf during the examination period. Further, the Company has not instructed agents to retain and report information supporting homeowners' applicants declined for coverage, and has not monitored agents for compliance with this requirement.

Required Actions: The Company shall require that agents retain copies of notices provided to applicants, who were declined for homeowners' coverage for a five-year period. The Company shall also obtain from the agents or a third party vendor, a quarterly listing of homeowners' applicants receiving written declination notices. The quarterly listing shall be used to complete on-site audits of agents for compliance with the declination requirements. Finally, the Company's internal audit department shall complete an independent assessment of the effectiveness of these new procedures by June 30, 2011, and report the results of the audit to the Division.

Subsequent Actions: The Company has agreed to implement the above required actions.

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

M.G.L. c. 175, §§ 22C, 99, 113A, 113F, 187C, 193P and 193R.

Objective: This Standard addresses notices to policyholders for cancellations, non-renewals and declinations, including advance notice before expiration for cancellations and non-renewals.

M.G.L. c. 175, § 22C states that automobile physical damage, personal injury protection or bodily injury coverage is only cancelable due to non-payment, fraud, driver license suspension or failure to comply with renewal requirements after 30 days notice. M.G.L. c. 175, § 99 outlines policy form requirements, including coverage for tenant relocation for landlord multi-unit residential property. Pursuant to M.G.L. c. 175, § 113A, no cancellation of the policy shall be valid unless written notice of the specific reason or reasons for such cancellation is given at least 20 days prior to the effective date thereof, which date shall be set forth in the notice. M.G.L. c. 175, § 113F states that any Company which does not intend to issue, extend or renew a motor vehicle liability policy shall give written notice to the insured (or agent in certain circumstances) of its intent 45 days prior to the termination effective date. Such notice must also be sent to the Registry of Motor Vehicles. Every insurance agent or broker receiving such a notice from a company shall, within 15 days of its receipt, send a copy of such notice to the insured, unless another insurer has issued a motor vehicle policy covering that insured's vehicles. Pursuant to M.G.L. c. 175, §

187C, any Company shall effect cancellation by serving written notice thereof as provided by the policy, and by paying the full return premium due. Pursuant to M.G.L. c. 175, § 193P, insurers must give 45 days' written notice to an insured with reasons stated to cancel homeowners' fire coverage. Agents similarly must notify an insured within 15 days of receipt. Pursuant to M.G.L. c. 175, § 193R, group rating is allowed, but companies must offer no higher than the same rate in the individual market, and cannot cancel anyone in the group except for fraud or non-payment.

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

- Company policy requires written notice of Company-initiated cancellations to policyholders in accordance with statutory requirements. The Company's practice is to give written notice to the policyholder and the reason for the cancellation at least 20 days prior to the effective date, for private passenger automobile and commercial automobile cancellations.
- The Company's practice is to give notice to the producer approximately 30 days prior to the effective date for cancellation of homeowners and commercial property/liability policies. The producer is responsible for communicating the pending action and the reason for it to the policyholder.
- Producers give private passenger automobile declination notices and the reason for the declination to applicants at the application date if applicants have failed to pay premiums during the preceding 12 months, or if the applicants do not hold, or are not eligible to obtain, a driver's license.
- Agents give applicants homeowners' declinations notices and the reason for the declination to applicants at the application date, if the applicant's credit score does not meet the Company's minimum credit score thresholds.
- Commercial automobile and commercial property/liability risks may be declined by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- Non-renewal notices for automobile policies are provided approximately 45 days prior to the effective date of the non-renewal. The notices state the reason for non-renewal, and are sent to the agent or ERP, or directly to the insured, if requested by the agent or ERP.
- Non-renewal notices for homeowners and commercial property/liability policies are given to the agents approximately 50 days prior to the policy renewal date. Agents are then responsible to communicate the pending action and the reason for it 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 selected eight private passenger automobile, three commercial automobile, five commercial property/liability, and nine homeowners' Company-initiated cancellations for testing. Additionally, two private passenger automobile non-renewals, two commercial automobile non-renewals, one homeowners non-renewal, and 11 private passenger automobile declinations processed during the examination period were selected for testing, to ensure compliance with cancellation, non-renewal and declination notice requirements. RNA also requested data supporting homeowners' declinations processed during the examination period.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: Based upon testing, Company-initiated cancellation, non-renewal and declination notices, when available, appeared to be timely provided with the reason for the action properly disclosed. For eight of the 11 private passenger automobile declinations, the Company could not

provide copies of the declination notices issued by the producers. Further, since the Company had no record of homeowners' declinations provided by agents on the Company's behalf during the examination period, homeowners' declinations could not be tested as noted in Standard VI-7.

Required Actions: The Company shall require that agents retain copies of notices provided to applicants, who were declined for private passenger automobile coverage for a five year period. The Company shall also obtain from the agents or through its agency interface system, a quarterly listing of such applicants receiving declination notices. The quarterly listing shall be used to complete on-site audits of agents for compliance with the declination requirements. Finally, the Company's internal audit department shall complete an independent assessment of the effectiveness of these new procedures by June 30, 2011, and report the results of the audit to the Division. Regarding homeowners' declinations, see the required actions in Standard VI-7.

Subsequent Actions: The Company has agreed to implement the above required actions.

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

M.G.L. c. 175, §§ 22C and 187D.

Objective: This Standard addresses whether decisions to rescind and to cancel coverage are made appropriately.

M.G.L. c. 175, § 22C states that a motor vehicle policy shall not be cancelled by the company except for nonpayment of premium, the failure to complete the application, fraud or material misrepresentation in the application, or unless the operator's license or motor vehicle registration of the named insured, or of any other person who resides in the same household as the named insured and who usually operates a motor vehicle insured under the policy, has been under suspension or revocation during the policy period, or if the insured refuses to comply with an insurer's request for inspection of his vehicle. M.G.L. c. 175, § 187D also allows the cancellation of any policy for nonpayment of premium.

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA inquired about any rescissions during the examination period, and was told that none were processed.

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.

M.G.L. c. 175E, §§ 4 and 7; M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175A, §§ 5, 6 and 9; M.G.L. c. 175, §§ 111H, 113B and 193R; 211 CMR 56.04, 79.00, 91.00, 131.00 and 134.00; Division Bulletin 2008-13.

Objective: This Standard addresses whether unfair discrimination is occurring in the application of premium discounts and surcharges.

Pursuant to M.G.L. c. 175E, § 4, private passenger automobile rates shall not be excessive, inadequate or discriminatory, and shall be discounted 25% for insureds age 65 or older. For both private passenger and commercial automobile policies, M.G.L. c. 175E, § 7 and 211 CMR 79.00 require every insurer or rating organization authorized to file on behalf of such insurer, to file with the Commissioner every manual of its classifications, rules and rates, rating plans and modifications of any of the foregoing, not less than 45 days before the effective date thereof. Pursuant to M.G.L. c. 174A, § 5, rates for fire, marine and inland marine coverage shall be based on experience and not be unfairly discriminatory. M.G.L. c. 174A, § 6 states insurers shall file rates with the Commissioner 15 days before the effective date. M.G.L. c. 174A, § 9 and M.G.L. c. 175A, § 9 state members or rating organizations must use their filed rates, or must file separate rates. M.G.L. c. 175A, § 5 states rates for commercial insurance shall be based on experience and shall not be unfairly discriminatory. M.G.L. c. 175A, § 6 states insurers and rating organizations must file certain casualty insurance rates 15 days prior to their effective date. M.G.L. c. 175, § 111H states insurers shall cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. M.G.L. c. 175, § 113B mandates various discounts and surcharges for automobile policies. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 56.04 requires premium discounts for election of optional repair shop endorsement plans. 211 CMR 91.00 prescribes requirements for the filing of rates with the Commissioner at least 45 days prior to their effective date. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing. 211 CMR 134.00 requires each driver to receive a step rating according to the Safe Driver Insurance Plan, which requires corresponding discounts and surcharges. Division Bulletin 2008-13 clarifies the meaning of "high-theft vehicles" and types of anti-theft devices.

Controls Assessment: Refer to Standard VI-1.

Controls Reliance: Refer to Standard VI-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. In conjunction with new and renewal business testing, RNA selected 18 private passenger automobile, two commercial automobile, 11 homeowners and six commercial property/liability policies issued or renewed during the examination period, to test rate classifications and premiums charged. RNA verified that each policy's credits and deviations were consistently applied on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company consistently applies credits and deviations on a non-discriminatory basis in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

M.G.L. c. 175A, § 5.

Objective: This Standard addresses whether schedule rating or individual risk premium modification plans are based on objective criteria and appropriately documented.

Pursuant to M.G.L. c. 175A, § 5, casualty, surety and certain commercial rates must be based, in part, on past and prospective loss experience, catastrophe hazards and include a reasonable margin for underwriting profits and contingencies. Risks may be grouped by classifications to establish rates and minimum premiums. Classification rates may be modified to produce rates for individual risks in accordance with rating plans which establish standards for measuring variations in hazards or expense provisions, or both. Such standards may measure any differences among risks that can be demonstrated to have a probable effect upon losses or expenses.

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

- The Company has written policies and procedures for determining schedule rating and individual risk premium modification plans.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete, including use of all Company required forms and instructions.
- Underwriting personnel are required to approve schedule rating and individual risk premium modification plans, and ensure that such decisions are documented in the underwriting files.

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. In conjunction with new and renewal business testing, RNA selected six commercial property/liability policies issued or renewed during the examination period, to test that schedule rating and individual risk premium modification plans are objective and documented.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's schedule rating and individual risk premium modification plans are objective and documented in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

<u>Standard VI-12</u>. 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 because the Company does not offer workers' compensation insurance.

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

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

<u>Standard VI-14</u>. Verification of experience modification factors.

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

<u>Standard VI-15</u>. Verification of loss reporting.

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

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

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

<u>Standard VI-17</u>. 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.

<u>Objective</u>: 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.

<u>Controls Assessment</u>: The following controls were noted in review of this Standard:

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company 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.
- Company policy is to accept all private passenger automobile risks, except the Company may decline a risk if the applicant, or any person who usually drives the motor vehicle, has failed to

pay premiums during the preceding 12 months, or if the applicant does not hold, or is not eligible to obtain a driver's license.

- Producers enter automobile application data and billing mode information on-line using CGI, Inc.'s Collaborative Edge system, which is licensed to the Company for its use.
- Commercial risks are referred to the underwriting department to determine whether they should be accepted or rejected.
- The Company's underwriting department conducts annual field audits of all ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producers.

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 60 private passenger automobile, seven commercial automobile, 15 homeowners and nine commercial property/liability 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 evaluated certain 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 generally using underwriting, rating and classification guidelines based on adequate information developed at or near inception of coverage. However, as a result of testing of complaints filed with the Division, RNA noted one instance when the Company did not verify the validity of the foreign driver's license for the application of drivers' experience credit at the inception of coverage, as required by Company policy. The Company instead relied on the foreign driver's record as stated by the applicant at the application date. The Company subsequently denied a claim submitted by the policyholder based upon material misrepresentation, since it determined the foreign driver's record submitted at the application date was fraudulent.

Required Actions: The Company shall ensure that its policies and procedures require consistency in underwriting due diligence for all risks accepted. The underwriting due diligence procedures, including but not limited to, the review of a valid foreign drivers' license and the application of a foreign drivers' experience credit, shall be completed at or near the inception of coverage, rather than after a claim is filed. This shall include risks where an applicant's current carrier's policy declaration page is used to accept the risk. Finally, the Company shall clarify to producers and Company employees these underwriting policies and procedures.

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

Objective: This Standard addresses whether premium audits are conducted accurately and timely. See Standard I-1 for audits by external and internal auditors.

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.
- Underwriting personnel are required to approve schedule rating and individual risk premium modification plans, and ensure that such decisions are documented in the underwriting files.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producers.
- The Company's conducts periodic premium audits related to commercial property/liability policies, to verify company payroll and other policy variables for schedule rating plans that impact premiums.

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. In conjunction with new and renewal business testing, RNA selected nine commercial property/liability policies issued or renewed during the examination period, to test whether premium audits were accurately and timely conducted.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's procedures for conducting premium audits appear reasonable. None of the tested commercial property/liability policies issued or renewed during the examination period had premium audits conducted during the examination period.

Recommendations: None.

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).

M.G.L. c. 175, §§ 2B, 22A, 99, 99B, 111H, 113A and 192; 211 CMR 131.00.

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval, and are properly listed on the policy declaration page.

Pursuant to M.G.L. c. 175, § 2B, policy form language, size and content standards for all policies must meet statutory requirements for readability and understanding. M.G.L. c. 175, §§ 22A and 113A require the filing of commercial automobile policy forms prior to use. M.G.L. c. 175, § 99 outlines policy form requirements including coverage for tenant relocation for landlord multi-unit residential property. M.G.L. c. 175, § 99B outlines form authority and approval for commercial property and multi-peril condominium risks. M.G.L. c. 175, § 111H states insurers shall cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. Pursuant to M.G.L. c. 175, § 113A, insurers must give 20 days' notice to cancel, they must obtain a certificate of mailing receipt from post office, and return premium must be mailed. M.G.L. c. 175, § 192 states endorsements are part of policy forms, and must be filed with the Division prior to use. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing.

Controls Assessment: Refer to Standard VI-5.

Controls Reliance: Refer to Standard VI-5.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 60 private passenger automobile, seven commercial automobile, 15 homeowners and nine commercial property/liability policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements, which are listed on policy declaration pages.

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. The policy form numbers are listed on policy declaration pages.

Recommendations: None.

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

M.G.L. c. 175, § 113S and 211 CMR 94.00.

Objective: This Standard addresses whether the Company verifies that the VIN and vehicle symbol submitted with the application is valid and accurate.

M.G.L. c. 175, § 113S requires that used cars, and those purchased by new customers, be inspected before fire and theft (comprehensive), collision or limited collision coverage can be issued. 211 CMR 94.00 requires that pre-insurance inspections of vehicles must verify the VIN.

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

- The producer is responsible for obtaining the VIN and vehicle symbol when the application is completed.
- Company policy and procedures require that pre-insurance inspections of vehicles verify the VIN and vehicle symbol.
- The Company's underwriting system compares the VIN and vehicle symbol to its industry database 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 60 private passenger automobile and seven commercial 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.

Recommendations: None.

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

M.G.L. c. 176D, §§ 3(4) and 3A.

Objective: This Standard addresses whether the Company has engaged in any collusive or anti-competitive underwriting practices.

Pursuant to both M.G.L. c. 176D, § 3(4) and M.G.L. c. 176D, § 3A, it is an unfair method of competition, and an unfair or deceptive act or practice in the business of insurance, to enter into any agreement, or to commit any act of boycott, coercion or intimidation resulting in, or tending to result in, unreasonable restraint of, or monopoly in, the business of insurance.

Controls Assessment: The following 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.
- Company policy is to accept all private passenger automobile risks, except the Company may decline a risk if the applicant, or any person who usually drives the motor vehicle, has failed to pay premiums during the preceding 12 months, or if the applicant does not hold, or is not eligible to obtain a driver's license.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Certain risks are referred to the underwriting department to determine whether they should be accepted or rejected.
- The Company's underwriting department conducts annual field audits of all its ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producers.

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 60 private passenger automobile, seven commercial automobile, 15 homeowners and nine commercial property/liability policies issued or renewed during the examination period, to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 193R.

Objective: This Standard addresses whether the Company's mass marketing efforts are in compliance with applicable statutes, rules and regulations.

Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby motor vehicle or homeowners insurance is afforded to employees of an employer, or to members of a trade union, association, or organization, and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

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

- Written Company underwriting guidelines are designed to reasonably assure consistency in the application of premium discounts and surcharges.
- The Company provides the same premium discount to each member of various affinity groups.
- Premium discounts available to affinity groups are filed with the Division for approval.
- The Company's underwriting department conducts annual field audits of all its ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producers.

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 60 private passenger automobile policies issued or renewed during the examination period, to test the application of affinity group discounts. Twelve of these policies received affinity group discounts. RNA verified that each affinity group discount given was properly applied and approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, affinity group discounts are properly applied and approved by the Division in accordance with the Company's policies, procedures, and statutory requirements.

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.

See Standard VI-8 for testing of this standard.

Standard VI-25. All policies are correctly coded.

Objective: This Standard addresses the accuracy of statistical coding.

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 the coding reported by the producer is correct and current.
- The Company has a process to correct data coding errors and to make subsequent changes, as needed.
- CAR conducts periodic audits of the Company's compliance with CAR requirements for automobile business ceded to CAR.
- The Company's policy is to timely report complete and accurate premium data in the required formats to rating bureaus such as the AIB, CAR, or ISO.
- The Company conducts audits of producer operations to ensure that certain statutory and regulatory guidelines for automobile policies are properly implemented.

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 60 private passenger automobile, seven commercial automobile, 15 homeowners and nine commercial property/liability policies issued or renewed during the examination period, to test data coding for selected policy determinants. RNA also reviewed recently issued CAR audit reports on the Company's compliance with CAR statistical coding requirements for key policy determinants for business ceded to CAR.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded. The CAR audit reports indicated the Company scored well, and compared favorably to the

Massachusetts industry.

Recommendations: None.

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

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

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

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Company policy is to accept all private passenger automobile risks, except the Company may decline a risk if the applicant, or any person who usually drives the motor vehicle, has failed to pay premiums during the preceding 12 months, or if the applicant does not hold, or is not eligible to obtain a driver's license.
- 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.
- Producers enter automobile application data and billing mode information on-line using CGI, Inc.'s Collaborative Edge system, which is licensed to the Company for its use.
- Producers will electronically submit, fax, email or mail homeowners and commercial property/liability applications and other required documents to the Company for processing.
- Properly completed applications must include applicant and producer signatures.
- Certain risks are referred to the underwriting department to determine whether they should be accepted or rejected.
- The Company's underwriting department conducts annual field audits of all ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producers.

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 60 private passenger automobile, seven commercial automobile, 15 homeowners and nine commercial property/liability policies issued or renewed during the examination period, to test whether the applications were properly completed and whether policy files adequately support the Company's decisions. RNA also evaluated certain complaints to ensure that underwriting decisions were properly supported.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, applications were properly completed and policy files adequately supported the Company's decisions, except as noted at Standard VI-17.

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.

M.G.L. c. 176D, § 3(9)(b).

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

Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claim settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

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

- Written policies and procedures govern the claims handling process.
- Written claim forms are received via fax, mail, electronically or from agents. Company policy requires that a loss creation file be established within two business days after claim notification is received. Once a loss creation file is established, Company policy requires contact with the claimant within one business day.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by agents or ERPs.
- All loss creation files are maintained on a mainframe-based claims management system.
- Company policy is to respond to all physical damage claims within two business days from the receipt of a loss report as required by CAR standards. Appraisers are dispatched to adjudicate all physical damage claims.
- Company policy is to complete physical damage appraisals within five days of the date of the appraisal assignment, as required by CAR standards.
- Company policy is to contact all injured persons, or their legal representatives, within one business day of claim receipt.
- Claims management access the claims system to monitor open claims.
- Claims management perform periodic claims reviews to evaluate compliance with Company claims policies, and use exception reports to measure operational effectiveness and claim processing time.
- The Company has established a CAD, which is charged with performing quality control audits of the Company's claims handling processes. Such audits are conducted of the Company's claims functional departments using numerous defined and measurable performance standards, including the timing of initial claimant contact. The CAD renders reports to senior management describing the audit results.
- Company policy is to investigate all claims in a timely manner in accordance with its policies, procedures, and regulatory requirements.

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 56 automobile and property/liability claims paid; 18 denied or closed without payment claims; and 16 claims that remained open with no payments during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, with timely initial contact from the Company. Based upon testing, it appears that the Company's processes for providing timely initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-2. **Timely investigations are conducted.**

M.G.L. c. 176D, § 3(9)(c).

Objective: The Standard addresses the timeliness of the Company's claim investigations.

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

Controls Assessment: Refer to Standard VII-1.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 90 automobile and property/liability claims paid, denied, opened, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its investigation was conducted in a reasonable and timely manner.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: RNA noted each of the tested claims was timely reported and investigated according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for timely investigating claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

M.G.L. c. 176D, § 3(9)(f); M.G.L. c. 175, §§ 28, 112, 113O and 191A; 211 CMR 123.00.

Objective: The Standard addresses the timeliness of the Company's claim settlements.

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

M.G.L. c. 175, § 113O states payments to the insured under theft or comprehensive coverage shall not be made until a claim form has been received from the insured, stating that the repair work described in an appraisal made pursuant to regulations promulgated by the Automobile Damage Appraiser Licensing Board has been completed. Insurers are required to make such payments within seven days of receiving the above claim form. Direct payments to insureds without a claim form may be made in accordance with a plan filed with and approved by the Commissioner. Any such plan filed with the Commissioner must meet stated standards for selecting approved repair shops, vehicle inspection, insurer guarantees of the quality and workmanship used in making repairs, and prohibitions on discrimination for selection of vehicles for inspection. 211 CMR 123.00 sets forth procedures for the Commissioner's approval of, and minimum requirements for, direct payment and referral repair shop plans.

M.G.L. c. 175, § 112 states that the liability of any company under a motor vehicle liability policy, or under any other policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage. M.G.L. c. 175, § 191A requires insureds to give timely notice of a property damage loss to the company or its agent. Further, insureds must also report thefts to the police. The company must pay such claims within 60 days after a proof of loss is filed. The statute also sets forth a process for selecting a disinterested appraiser if the insured and the company fail to agree on the amount of loss.

Controls Assessment: Refer to Standard VII-1.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 90 automobile and property/liability claims paid, denied, opened, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its investigation was conducted and resolved in a reasonable and timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: The Standard addresses the timeliness of the Company's response to all claim correspondence.

Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to act reasonably promptly upon communications with respect to claims arising under insurance policies. M.G.L. c. 176D, § 3(9)(e) considers failure to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed an unfair trade practice.

Controls Assessment: 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 90 automobile and property/liability claims paid, denied, opened, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether the Company timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim files.

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 90 automobile and property/liability claims paid, denied, opened, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: RNA noted each of the tested claims was adequately documented according to the Company's policies and procedures. Based upon testing, it appears that the Company's claim handling processes for documenting claim files are functioning in accordance with its policies and procedures.

Recommendations: None.

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

M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), M.G.L. c. 175, §§ 22B, 22I, 24D, 24E, 24F, 96, 97, 97A, 100, 102, 111F, 112, 112C, 113J, 113K and 113O; M.G.L. c. 139, § 3B; 211 CMR 75.00 and 211 CMR 133.00; 212 CMR 2.00; Division Bulletin 2008-12.

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee.

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear an unfair trade practice. M.G.L. c. 175, § 22B prohibits waiver provisions in insurance contracts except as expressly provided. M.G.L. c. 175, § 22I allows companies to retain unpaid premium due from claim settlements. Claim payments must also comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, §§ 111F and 113J. M.G.L. c. 175, § 24E requires an insurer to exchange information with the Commonwealth not less than 10 business days prior to making payment to a claimant who has received public assistance benefits. M.G.L. c. 175, § 24F requires insurers to communicate with the Commonwealth regarding claimants with unpaid taxes. In addition, M.G.L. c. 175, § 112C requires companies to reveal to an injured party making a claim against an insured, the amount of the limits of said insureds liability coverage upon receiving a request in writing for such information. M.G.L. c. 175, § 96 states when a building is destroyed by fire, the insurer's liability is limited to the actual cash value of the insured property. M.G.L. c. 175, § 97 states companies must pay fire losses to mortgagees of property upon satisfactory proof of rights and title in accordance with the insurance policy. M.G.L. c. 175, § 97A states that for any fire loss where damages exceed $5,000, the claimant must first submit to the insurer a certificate of municipal liens from the city or municipality, and the insurer shall pay the amount of the lien prior to paying the insured owner, mortgagee, or similar assignee. M.G.L. c. 175, § 100 sets forth standards for selecting a referee when parties to a claim fail to agree on the amount of loss. M.G.L. c. 175, § 102 states insureds under a fire policy are not precluded from recovery by failing to render a sworn statement, if they do so upon the Company's appropriate written request. M.G.L. c. 139, § 3B states companies may not pay claims in excess of $1,000 on dangerous buildings or structures without first giving 10 days written notice to the building inspector or commissioner appointed pursuant to the state building code, to the fire department and to the Board of Health for the city or town where the property is located. M.G.L. c. 175, § 112 states that liability of any company under any policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage. Division Bulletin 2008-12 establishes guidelines for the coordination of benefits for personal injury protection and health insurers.

M.G.L. c. 175, § 113K states that persons age 16 and older may purchase automobile insurance. M.G.L. c. 175, § 113O prohibits payments by an insurer for theft coverage until the insured has received notice from the appropriate police authority that a statement has been properly filed. Additionally, companies are required to report the theft or misappropriation of a motor vehicle to a central organization engaged in motor vehicle loss prevention. 211 CMR 75.00 designates the National Insurance Crime Bureau as the central organization to be used for this purpose.

211 CMR 133.00 sets forth uniform standards for repair of damaged motor vehicles, but applies only when an insurer pays the costs of repairs. The regulation addresses how damage and repair costs are determined, requires that like kind repair parts be used, and sets forth methods for determining vehicle values. It further allows vehicles deemed a total loss to be repaired subject to certain requirements and limits. Lastly, the regulation requires an insurer to have licensed appraisers conduct "intensified" appraisals of at least 25% of all damaged vehicles for which the damage is less than $1,000, and 75% of all damaged vehicles for which the appraised cost of repair is more than $4,000 for collision, limited collision, and comprehensive claims. The "intensified" appraisal is to determine if the repairs were made in accordance with the initial appraisal and any supplemental appraisals. 212 CMR 2.00 sets forth uniform procedures for conducting motor vehicle damage appraisals.

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 90 automobile and property/liability claims paid, denied, opened, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Further, as part of complaint testing, RNA evaluated claims-related complaints to determine whether the related claims appeared to be properly handled.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: RNA noted each of the tested claims was handled according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for handling claims are functioning in accordance with its policies, procedures and statutory requirements. Further upon evaluation of claims-related complaints, such claims generally appeared to be properly handled. However, in one isolated instance, the Company failed to establish a valid towing claim due under the related policy.

Recommendations: The Company should ensure that all claims are properly established upon the filing of such claims. Further, the Company should conduct appropriate training for claims specialists regarding these procedures.

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.

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 90 automobile and property/liability claims paid, denied, open, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA reviewed the file for each selected claim and verified that claim forms were appropriate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims used appropriate claim forms in accordance with the Company's policies and procedures.

Recommendations: None.

Standard VII-8. Claims 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.

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 90 automobile and property/liability claims paid, denied, opened, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner. The Division's financial examiners and actuaries also tested reserving in conjunction with the recently completed financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims.

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Pursuant to M.G.L. c. 176D, § 3(9)(h), unfair claim settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he or she was entitled to receive. M.G.L. c. 176D, § 3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim an unfair claim settlement practice.

Controls Assessment: 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 18 automobile and property/liability claims denied or closed without payment claims during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether the Company handled each claim timely and properly before closing or denying it.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: RNA noted each of the tested claims was handled according to the Company's policies and procedures. Based upon testing, it appears that the Company's claim handling and denial practices are appropriate and are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

Objective: The Standard addresses the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices.

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

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, with adequate claim payment documentation. Based upon testing, it appears that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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.

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

Controls Assessment: 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 90 automobile and property/liability claims paid, denied, opened, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. When applicable, RNA verified the date each selected claim was reported to the Company, reviewed correspondence and investigative reports, and noted whether the Company handled the claims timely and properly.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-12. The 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.

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 90 automobile and property/liability claims paid, denied, opened, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA reviewed the file for each selected claim, and noted whether reservations of rights or excess loss letters were warranted, and reviewed model correspondence.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, and claim file documentation was adequate. Based upon testing, it appears that the Company's processes for utilizing reservation of rights and excess loss letters for claims are functioning in accordance with its policies and procedures.

Recommendations: None.

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

Objective: The Standard addresses whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery.

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 90 automobile and property/liability claims paid, denied, opened, or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA reviewed each selected claim file, and noted whether subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

> *Findings*: None.

Observations: RNA noted that subrogation recoveries for all applicable tested claims were timely and accurate according to the Company's policies and procedures, and claim file documentation was adequate. Based upon testing, it appears that the Company's processes for making subrogation recoveries to insureds are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus.

Pursuant to M.G.L. c. 175A, § 15(a), insurers must record and report their loss and countrywide expense experience in accordance with the statistical plan promulgated by the Commissioner, and the rating system on file with the Commissioner. The Commissioner may designate a rating agency or agencies to assist in the compilation of such data. In accordance with 211 CMR 15.00, the Commissioner established and fixed various statistical plans to be used in relation to homeowners insurance and related coverages, in accordance with M.G.L. c. 175A, § 15(a).

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

- Company policy is to report complete and accurate loss data timely to appropriate rating bureaus (i.e. CAR or ISO).
- The Company reports private passenger automobile loss data to CAR in a format required by CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company reports homeowners and commercial property/liability loss data to ISO in a format required by ISO.
- Detailed claim data is reported quarterly to CAR, AIB and ISO. The claim data includes loss experience by line of business, type of loss, dollar amounts, claim counts, accident dates, territory, etc.
- Claims management personnel reconcile the underlying claim data for completeness and accuracy. Exceptions reports are generated to ensure the loss data is properly reported.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by agents or ERPs.
- The Company's CAD conducts audits of the Company's claims functional departments using numerous defined and measurable performance standards, including the completeness and accuracy of loss statistical coding. Reports to senior management are issued describing the results of its audits.

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 also reviewed recently issued CAR audit reports to evaluate the Company's compliance with CAR statistical coding requirements for key claim determinants for business ceded to CAR.

Transaction Testing Results:

> *Findings*: None.
>
> *Observations*: The Company appears to have processes for timely and accurately reporting loss statistical data to rating bureaus in accordance with its policies and procedures, as well as statutory and regulatory requirements. The CAR audit reports indicated the Company scored well and compared favorably to the Massachusetts industry.

Recommendations: None.

SUMMARY

Based upon the procedures performed in this comprehensive examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the 2008 *NAIC Market Regulation Handbook,* the market conduct examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has made recommendations or the Division has set forth required actions to address various concerns in the areas of Company Operations/Management, Complaint Handling, Producer Licensing, Underwriting and Rating and Claims.

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Rudmose & Noller Advisors, LLC, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of Insurance of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination ("comprehensive examination") of the Company.

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

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

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