

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

Report on the Comprehensive Market Conduct Examination of
Electric Insurance Company

Beverly, MA

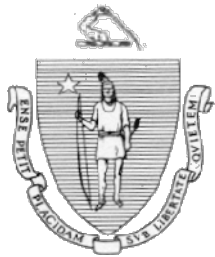
For the Period January 1, 2018 through December 31, 2018

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

December 13, 2021

Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Anderson:

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

ELECTRIC INSURANCE COMPANY

at their home offices located at:

75 Sam Fonzo Drive
Beverly, MA 01915

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of the Electric Insurance Company (“EIC” or “Company”), which is a Massachusetts domiciled company, for the period January 1, 2018 to December 31, 2018. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination was conducted under the direction, management, and control of the market conduct examination staff of the Division. Representatives from the firm of INS Regulatory Insurance Services, Inc. (“INS”) were engaged to complete the examination.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2018 NAIC Market Regulation Handbook* (“the Handbook”), the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations, and bulletins, and selected federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division’s separate financial examination of the Company. For those objectives, INS and the market conduct examination staff used procedures performed by the Division’s financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, producer licensing, policyholder service, underwriting and rating, and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

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

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

EXECUTIVE SUMMARY

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

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

The examination resulted in no recommendations or required actions regarding company operations/management, complaint handling, marketing and sales or producer licensing. There were required actions in claims.

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

VII. CLAIMS

STANDARD VII-9

Findings: For one homeowner claim, the Company failed to act promptly in the denial of the claim in violation of M.G.L c. 176D, § 3(9)(f) and 3(9)(n).

Observations: The Company's claim handling and denial practices are reasonable and in accordance with its policies, procedures, and statutory requirements with the one exception noted above.

Required Actions: The Company shall remind the appropriate Company staff of their responsibility to act promptly in the denial or acceptance of a claim as specified in M.G.L c. 176D, § 3(9)(f) and 3(9)(n).

Subsequent Company Action: The Company's process for processing denial letters has changed from a manual process that involved distributing hard copies to management for review to an automated system. The automated system allows copies of denial letters to be sent to management groups for review and tracking via electronic mail. As a result, the Company anticipates the computerized system will eliminate errors such as the one listed above in "Findings."

COMPANY BACKGROUND

The Company was incorporated in 1966 as a wholly owned subsidiary of Electric Mutual Liability Insurance Company to provide personal lines insurance to the employees of General Electric Company (“General Electric”). Since that time, the Company has expanded its service to offer personal lines products to the public. In June 1995, the Company began writing commercial lines coverage for General Electric and its affiliates.

On July 1, 1995, Wilmington Trust Company acquired all the issued and outstanding shares of the Company. On January 17, 2018, the Massachusetts Division of Insurance approved the acquisition of control of Electric Insurance Company by General Electric Company, General Electric Capital Global Holdings, LLC and General Electric Capital US Holdings, Inc. On March 13, 2018, the Trust Agreement was terminated, and Wilmington Trust Company signed a stock power transferring 100% of the issued and outstanding shares of the Company’s stock to General Electric Capital US Holdings, Inc.

In Massachusetts, the Company currently writes the following personal lines: private passenger automobile, homeowners, umbrella, dwelling/fire, and yacht. On the commercial lines side, the Company provides a commercial automobile policy, a general liability policy, and a workers’ compensation policy for General Electric that includes coverage for exposures in Massachusetts.

The Division determined the key objectives of this examination 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 the audit function and its responsibilities. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Internal Audit Department ("IA") has an independent reporting structure with oversight from the Chief Compliance Officer and direct line reporting into the Audit Committee.
- IA reports to the Audit Committee four times annually and more frequently to management.
- The Audit Committee has three members, two of which are independent directors. The Audit Committee focuses on financial, operational, regulatory, and some IT audits.
- The IA reports to the Audit Committee regularly throughout the year.
- The Audit Committee firmly focuses on an independent review of the operations.
- For regulatory audits, the IA evaluates market conduct activity in the top states' premium, agency growth, complaints, etc., to determine if an audit is warranted.
- The Company records sales calls and monitors call service levels for their internal sales staff. In addition, team Leads and Managers use a sampling of these calls for the coaching staff and accuracy improvement.
- The Company monitors claims service levels, including the percentage of calls answered within a specific time frame. In addition, the claims management will review two calls per month per claims handler for areas such as customer satisfaction with the response.
- The Company's underwriting department performs a quality assessment of all new business applications within a specified time frame to confirm it meets the Company's underwriting guidelines.
- The Company is subject to periodic audits by the Commonwealth Automobile Auto Reinsurers ("CAR").
- The Company is subject to audits conducted by The Workers' Compensation Rating and Inspection Bureau.
- There were audits on the claims process, delegation of authority, accuracy of claims, etc. The reliance tests are annual.
- One Third Party Administrator ("TPA") handles workers' compensation claims, and the Company does perform quality and performance audits for that TPA. For example, there were audits on the claims process, delegation of authority, accuracy of claims, etc. In addition, the Company conducts reliance tests annually.

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

Transaction Testing Procedure: INS reviewed twenty-three external exam reports provided by the Company for review. INS also interviewed the Company staff who described the audit process.

Transaction Testing Results:

Findings: None.

Observations: INS reviewed various market conduct audits conducted by states, advisory organizations, workers compensation bureau and internal audits. The audits show that the Company complies with the laws, regulations, and regulatory requirements. The Company was responsive to changes when needed.

Recommendations: None.

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

The examiners did not perform work for this Standard. The financial examiners reviewed all required activity for this Standard in a previous statutory financial examination of the Company

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

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

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

- The Sr. Manager of Claims is responsible for the antifraud efforts of the Company.
- The fraud activities are predominantly focused on the personal lines auto and homeowners' market.
- In April 2018, the only internal SIU investigator resigned, and the Company assigned all SIU activities to G4S.
- G4S investigative service is available to assist the underwriting and claims departments with the investigative process if the Company suspects there is a fraud or fraud related concern.
- 4S does training for new employee orientation and has assisted in developing a more robust antifraud plan.
- There is an online portal with G4S called Partner Link for making referrals to G4S.
- A report of all cases with G4S is available on a dashboard.
- The Sr. Manager of Claims will coach claim staff on the attributes often present cases involving fraudulent claims.
- Felony checks are done when individuals are onboarded. There is also an annual attestation process to confirm they have not been convicted of a felony since their original hire.
- When a licensed or unlicensed candidate applies, they fill out an application attesting to this question. Their onboarding paperwork has another attestation, and they fill out an authorization to conduct a background check.

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

Transaction Testing Procedure: INS reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and reviewed supporting documentation. INS also interviewed the Company's staff, who are responsible for antifraud activities.

Transaction Testing Results:

Findings: None.

Observations: INS determined that the Company's fraud plan is sufficient to provide the employee's guidance and resources to detect, prevent and report suspected fraud effectively.

Recommendations: None.

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

The examiners did not perform work for this Standard. The Company's statutory financial examination included a review of the activity relevant to this Standard.

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

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

Controls Assessment: The examiners noted the following controls in the review of this Standard.

- The Company sales force is primarily employee-based and one independent agency.
- Specific claims litigation duties are handled by outside counsel.
- Claims and Underwriting utilize an outside firm to assist with investigations and fraud training, and they also helped develop a more robust fraud plan.
- An outside vendor handles some of the worker's compensation claim processing. The vendor's contract specifies performance standards and compliance with applicable laws. The company monitors performance to ensure compliance with standards and statutes.
- An outside firm conducts a background check of new employees.

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: INS interviewed management about its use and monitoring of third-party entities assuming a business function. As part of the claims and underwriting testing, supporting documentation was reviewed as well. The Company provided a list of the vendors with whom they have relationships. The examiner reviewed relevant contracts.

Transaction Testing Results:

Findings: None.

Observations: It appears that the contracts are thorough and address compliance with statutory, regulatory, and the Company's policies and procedures. Based on the file, testing results were the same.

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. See Appendix A for applicable statutes, regulations, and bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedures: INS interviewed management about its use and monitoring of third-party entities assuming a business function. As part of its workers' compensation claim review, INS reviewed work conducted by the third-party claim administrator and outside counsel.

Transaction Testing Results:

Findings: None.

Observations: It appears that the Company is adequately monitoring its vendors that are assuming a business function.

Recommendations: None.

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

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

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

- An outside vendor assisted the Company in developing a record retention policy.
- The Office of the General Counsel is responsible for answering questions regarding the policy.
- The policy addresses management, maintenance, and when records can be destroyed.

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: INS obtained a copy of the Company's record retention policy and reviewed it for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policy appears reasonable. Examiners did not observe missing or incomplete records or any evidence to indicate that the record retention policy is inadequate.

Recommendations: None.

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

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

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

- The examiners interviewed Company personnel regarding their lines of business.
- New business issue lists were requested and reviewed.

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.

Transactions Testing Procedures: INS reviewed the Company's certificate of authority and compared it to the lines of business the Company writes in Massachusetts.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-9. The regulated entity cooperates on a timely basis with examiners performing the examinations.
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Objective: This Standard is concerned with the Company's cooperation during the examination. See Appendix A for applicable statutes, regulations, and bulletins.

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

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

Transaction Testing Procedure: The Company's level of cooperation was assessed throughout the course of the examination.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<p><u>Standard I-10.</u> 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.</p>

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

Controls Assessment: The examiners noted the following controls in conjunction with the review of this Standard:

- The Senior Regulatory Counsel is responsible for maintaining and updating as needed the Company's privacy policy.
- New hires get training as part of the onboarding process. In addition, there is annual training provided to all employees and the claims vendor staff as well.
- The privacy policy goes out to any personal lines policyholder.
- Company policy allows, with policyholder consent, appropriate personal information to be shared. In addition, the Company can obtain an insurance score or driving history with consent.
- Nondisclosure agreements with strong confidentiality provisions are required.
- The Company has adopted the federal privacy notice. In addition, the Company has a written information security policy with technical controls, awareness and training, incident handling, and third-party relationships to comply with Massachusetts laws.
- The Company does not sell or share information with anyone for marketing purposes.

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: INS reviewed processes for privacy and information security compliance provided by the Company. INS also interviewed senior management that described the Company's activities to understand their efforts to ensure adherence to Company privacy policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of documentation and claim and file review, the Company's privacy policies and procedures appear adequate.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: INS reviewed processes for privacy and information security compliance provided by the Company. INS also interviewed management that described the Company's activities to understand their efforts to ensure adherence to Company privacy policies. In addition, as part of the underwriting testing and all claims testing, INS reviewed documentation and verified that no improper release of nonpublic personal information occurred.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of documentation and claim and file review, the Company's privacy policies and procedures appear adequate.

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: INS reviewed processes for privacy and information security compliance provided by the Company. INS also interviewed senior management that described the Company's activities to understand their efforts to ensure compliance with Company privacy policies. In addition, as part of the testing for underwriting and all claims, INS reviewed documentation to confirm nonpublic personal information was not released improperly.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of documentation and claim and file review, the Company's privacy policies and procedures appear adequate.

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: INS reviewed processes for privacy and information security compliance provided by the Company. INS also interviewed management that described the Company's activities to understand their efforts to ensure adherence to Company privacy policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of documentation and file review, the Company's privacy policies and procedures appear adequate.

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: INS reviewed processes for privacy and information security compliance provided by the Company. INS also interviewed senior management that described the Company's activities to understand their efforts to ensure adherence to Company privacy policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of documentation and claim and file review, the Company's privacy policies and procedures appear adequate.

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: INS reviewed processes for privacy and information security compliance provided by the Company. INS also interviewed senior management that described the Company's activities to understand their efforts to ensure adherence to Company privacy policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of documentation and claim and file review, the Company's privacy policies and procedures appear adequate.

Recommendations: None.

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

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

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

- The Company has developed and implemented an information security policy to appropriately protect the data's confidentiality, integrity, and availability.
- The Company uses Cryptology appropriately to protect the confidentiality and integrity of the data.
- Company employees must have and maintain Information Security Awareness training.
- The Company maintains an access management program that includes periodic reviews, privileged access, remote access, and passwords.

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 Procedures: INS interviewed Company personnel responsible for information security compliance and reviewed documentation, including the Company's security policy.

Transaction Testing Results:

Findings: None.

Observations: After discussions with key personnel and reviewing documentation, it appears the Company policy is adequate to protect nonpublic customer information.

Recommendations: None.

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

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

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

- The Company has developed and implemented an information security policy to appropriately protect the data's confidentiality, integrity, and availability.
- The Company uses Cryptology appropriately to protect the confidentiality and integrity of the data.

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- The Company must maintain up-to-date Information Security Awareness training. Therefore, training is conducted annually for all employees.
- The Company has and maintains an access management program that includes periodic reviews, privileged access, remote access, and passwords.
- The Company's policy administration, underwriting, and claims systems compile and retain underwriting and claims data for inclusion in the Market Conduct Annual Statement ("MCAS").
- The Company reviews the draft MCAS filings for unusual items and changes the draft filing as appropriate before submitting the MCAS to the NAIC.
- The Company's policy administration, underwriting, and claims systems compile and retain homeowners underwriting and claim data for inclusion in the annual homeowners data submission to the Division.

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

Transaction Testing Procedures: INS interviewed Company personnel responsible for information security compliance and reviewed documentation, including the Company's security policy.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of documentation and discussions with key personnel, it appears the policy is adequate to 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.

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

Controls Assessment: The examiners noted the following controls :

- The Company considers a complaint to be any written communication primarily expressing a grievance.
- The Customer Affairs and Information Department is knowledgeable in the company's affairs and operation and can answer all telephone customer inquiries or direct the call to the appropriate party. In addition, Team Leaders are available to answer more complex calls or transfer the caller to a manager or Vice-President.
- Upon receipt of a complaint, it goes to the designated officer, the Chief Underwriting Officer, the officer designated by the Company to be responsible for the complaint process. The officer's assistant will log the complaint into the Complaint Register and assign it to the proper person for investigation and response.
- The Company's standard is that a complete written response will issue for all complaints within ten business days of receipt.
- The complaint register contains several fields, including the complaint number, date received, date of the complaint, nature of the complaint, date of acknowledgment, date response due, date of response, the origin of the complaint, insurance department file number, the total number of complaints, their classification by line of business.
- Complaint records are maintained for five years or since the last market conduct exam date, whichever is longer.
- The Company's policy is to conduct a quarterly review of the complaint register and report the results to the operational management team, the designated officer, and the President.

Controls Reliance: Controls tested via inspection of documentation,, 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: INS interviewed management and staff responsible for complaint handling and the complaint procedure. INS reviewed the complaint register to ensure it captured all statutorily required elements. In addition, the examiners reviewed the four complaints received from individuals and the Division.

Transaction Testing Results:

Findings: None.

Observations: INS concluded the register captured all statutorily required elements, and the Company appears to handle complaints appropriately.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: INS interviewed management and staff responsible for complaint handling and the complaint procedures. INS reviewed four complaint files for adequate documentation to support the resolution of the complaint. The correspondence to the consumer inquiry provides a company contact name and contact information.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, INS has concluded that the Company's policies and procedures appear adequate to address complaints appropriately.

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: INS interviewed management and staff responsible for complaint handling and the complaint procedures. INS reviewed the four complaints to determine if the Company adequately takes steps to promptly finalize and dispose of the complaints.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, INS has concluded that the Company adequately takes steps to promptly finalize and dispose of the complaint.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: INS interviewed management and staff responsible for complaint handling and the complaint procedures. INS reviewed the four complaints to determine the Company's response time to complaints.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, INS has concluded that the Company response time is appropriate for both Division and consumer complaints.

Recommendations: None.

III. MARKETING AND SALES

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

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

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

Controls Assessment: The examiners noted the following controls:

- The Company develops print and mail advertising for use by its employee agents to use in marketing to General Electric employees, employer groups, and the public.
- The Company has one independent agency. The Company must review and approve any independent marketing material before production and use by this independent agency.
- The Company has policy and procedures for developing, reviewing, and approving all advertising used by the Company.
- The Company has a vendor that validates grammar, punctuation, etc. In addition, as they are an outside firm, they proofread all materials to ensure there is minimal insurance terminology.

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: INS interviewed the Companies' senior staff involved with marketing, who described the marketing and sales approach. In addition, INS reviewed twenty-five pieces of advertising to ensure compliance with applicable statutes, rules, and regulations.

Transaction Testing Results:

Findings: None.

Observations: INS reviewed twenty-five pieces of advertising/marketing material. No violations were noted.

Recommendations: None.

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

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

Controls Assessment: The following controls were noted:

- The Company provides a 16 ½ day training program to utilize a self-study product developed by an outside vendor. The training provides all the information a producer will need to pass the state examination.
- New hires receive on-site training on the products offered by the Company and privacy concerns.
- As needed, the marketing manager will go to the independent agency and train new staff on revisions to existing products.

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: INS interviewed the Company's senior staff involved with marketing, who described the marketing and sales. In addition, INS reviewed documentation and the training material website to understand the vendor training provided.

Transaction Testing Results:

Findings: None.

Observations: Based on the Company's handling and responses, INS determined that the Company has established practices and procedures to handle producer training material adequately.

Recommendations: None.

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

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

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: INS interviewed the Company staff involved with marketing and responsible for developing and distributing information to producers. In addition, INS reviewed documentation that outlined the communication process.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, procedures for communications with producers appear appropriate and reasonable. INS noted no evidence of unreasonable communications during testing.

Recommendations: None.

IV. PRODUCER LICENSING

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

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

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

Controls Assessment: The examiners noted the following controls

- The Company primarily utilizes exclusive employee agents and one independent agency with four agents.
- The Company conducts felony checks when individuals are on-boarded. There is also an annual attestation process to confirm individuals have not been convicted of a felony since their original hire. The background check is conducted through an external vendor.
- All employee agents and independent agents are appointed through the Online Producer Appointment website.
- Employee agents have a monthly incentive available, which provides a payout relative to the policies and premium bound with the Company. Sales thresholds are updated monthly, and payouts increase as performance increases.
- The Company provides a 16 ½ day training program to utilize a self-study product developed by an outside vendor. The training provides all the information a producer will need to pass the state exam.
- New hires receive on-site training on the products offered by the Company and privacy concerns.
- As needed, the marketing manager will go to the independent agency and train new staff on revisions to existing products.

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: INS interviewed the Company's senior staff involved with licensing and appointment. As part of the new business testing, INS selected twenty (20) homeowners and twenty (20) private passenger automobile policies to confirm the agents were properly licensed/appointed.

Transaction Testing Results:

Findings: None.

Observations: Based on the testing, INS determined the agents were properly licensed and appointed when the policy was written and agreed with insurance department records.

Recommendations: None.

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

See 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.

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

Controls Assessment: The examiners noted the following controls:

- The Company utilizes a vendor's management system to maintain all its producer licensing and appointment records. This system runs a Producer Data Base Report, which brings in the most up-to-date licensing data from the central repository database which receives its data directly from the Division.
- The Company uses the Massachusetts OPRA system for terminations and provides a letter notifying the individual of the termination.

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: INS interviewed the Company's senior staff involved with producer licensing, who described the licensing and termination process. INS reviewed documentation, including the termination procedure. In addition, INS compared the Division's list of producers to the Company's list. INS reviewed this documentation to ensure compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the Company's handling and responses, INS determined that the Company has established practices and procedures to handle producer terminations adequately.

Recommendations: None.

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

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

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

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

Transaction Testing Procedure: INS interviewed the Company's staff involved with producer licensing, who described the licensing and termination process in conjunction with reviewing 25 new business/renewal homeowners and 25 new business/renewal private passenger policies. INS reviewed documentation to determine if there was any evidence of unfair discrimination in the producer appointment and termination process.

Transaction Testing Results:

Findings: None.

Observations: Based on the testing, the examiners did not find any evidence of unfair discrimination.

Recommendations: None.

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

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

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

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

Transaction Testing Procedure: INS interviewed the Company's Agency Manager involved with producer licensing to discuss the licensing and termination process details. In conjunction with the review of new business homeowners and private passenger policies, INS reviewed 20 of each to determine if the producer was appropriately appointed or terminated, if applicable.

Transaction Testing Results:

Findings: None.

Observations: There were no producers terminated for cause during the examination period. Based upon testing, the Company adequately documents the reason for termination.

Recommendations: None.

Standard IV-6. Producer account balances are in accordance with the producer's contract with the insurer.
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Work was not performed on this Standard as the Company direct bills most customers. In addition, the Company only contracts with one agency with four agents, and therefore, this does not present a significant issue.

V. POLICYHOLDER SERVICES

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

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

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

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

- Most of the policies are direct billed. Policyholders may pay in full. Other options include a 3-month, five months, or an 8-month billed consecutive option. The down payment will vary based on the plan selected. Other options include Semi-Annual, Quarterly, or payroll deduction if the insured is an employee of one of five different employer groups. If an employee on a payroll deduction billing plan misses two consecutive payments, the payment mode is changed to a direct monthly billing status to the employee directly.
- Initial notice is sent twenty days in advance of the premium due date. Ten days after the initial due date, a late invoice is sent with a second premium owing date of twenty days later. If the Company does not receive a payment within five days after the 2nd due date, the Company sends the insured a notice of intention to cancel. The cancellation is twenty-seven days after the "notice of intention" to cancel is sent for private passenger auto and twenty-four days for homeowners.
- After cancellation, the customer will have ten days to pay the earned premium. Billing will review the account twenty days after the ten days have expired (full thirty days past due). If the premium remains unpaid and the account exceeds \$50, it is then a collections matter.
- The Company will consider writing a policyholder whose prior policy lapsed for non-payment. An established decision tree looks at such items as previous cancellations, length of lapse, etc., to review factors consistently.

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: INS reviewed the Company's policies and procedures for providing billing and lapse notices. INS also interviewed the Director of Customer and Lead Billing Subject Matter Expert, who described the Company's billing process and procedures.

Transaction Testing Results:

Findings: None.

Observations: INS determined that the Company has sufficient policies and procedures for providing billing and cancellation notices.

Recommendations: None.

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

Objective: This Standard addresses the Company's procedures to ensure that policyholder cancellation requests are processed timely. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company has written policies and procedures for the processing of policyholder and contract holder transaction requests.
- Endorsements and insured requested cancellations are generally processed in two days of receipt of complete information.
- When a customer calls to cancel their policy, the responding agent will generate a Cancellation Release Form for the customer to complete. The insured must provide a Plate Return Receipt to confirm the registration is canceled, or the new carrier must submit a 2A letter. Upon receipt of the required forms, the Company processes the policy cancellation using the requested effective date. Policies are canceled either pro-rata or flat upon the policy term expiration.
- The time frames were tested in a sample of insured-requested canceled policies.
- Cancellation requests are handled promptly.

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: INS reviewed the Company's policies and procedures and a sample of insured-requested cancellations. INS also interviewed the staff responsible for policyholder services, who described the Company's practices for processing insured request cancellations.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, INS determined that the insured requested cancellations were processed 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 responses to customers. Complaints are covered in the Complaint Handling Section, and claims are covered in the Claims Section. See Appendix A for applicable statutes, regulations, and bulletins.

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

- Correspondence received by mail or courier is scanned and filed electronically, with a copy sent to the appropriate department via an internal workflow application. Inquiries from the company

website follow a similar distribution process. Generally, staff respond to New Policy Sales and Customer Service queries as received and typically I reply within two business days.

- The Company records all calls and monitors service levels on their internal sales staff. Team Leads and Managers use a sampling of these calls for coaching and improving staff performance and accuracy.
- The Company monitors claims service levels, including the percentage of calls answered within a specific time frame. In addition, the claims management will review two calls per month per adjuster for areas such as evaluating customer satisfaction with the received response.
- The Company's underwriting department performs a quality assessment of all new business applications within a specified time frame to confirm it meets the Company's underwriting 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: INS also interviewed the underwriting, claims, and other staff responsible for policy service level who described the Company's practices.

Transaction Testing Results:

Findings: None.

Observations: INS determined that the Company has sufficient policies and procedures for providing billing and cancellation notices. Based on review and testing, INS determined that the Company has policies and procedures to process customer correspondence timely and appropriately. There were no deficiencies or delays in the processing of customer requests noted.

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.

There was no work performed for this Standard. The Company did not enter into any assumption reinsurance agreements during the examination period.

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

Objective: This Standard addresses procedures for processing changes to insurance accounts after policy issuance. Objectives pertaining to policy issuance are included in Standard VI-6. Billing transactions are tested in Standard V-1, and insured-requested cancellations are reviewed in Standard V-2. Return of premium testing is included in Standard V-7.

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

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

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

- The Company's "returned mail procedure" requires staff to review the account for recent customer interactions and verify the current address.
- For an auto policy, the staff will review the policyholder's address in the Registry of Motor Vehicles for updates.
- If the Company has an email address on the account, staff sends an email requesting a proper mailing address. If the file does not include an email address or no response to the initial email is received, the Company makes two additional attempts to reach the customer by phone. If there is a Third-Party or Designee listed on the account, the Company follows the same outreach process to make contact.
- After the efforts listed above to locate a customer are exhausted, the Treasury Department receives the information for further handling. First, staff in the Treasury use the internet to find a new address. Next, they send a letter to the last, best address or newly identified address. Finally, the Treasury Department follows the state-specific escheatment process to submit the funds to the state.

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: INS reviewed the Company's policies and procedures for locating missing policyholders and/or beneficiaries. INS also interviewed the Treasury and Investment Manager, who described the practices to escheat unclaimed policy and the process for finding missing policyholders, contract holders when checks remain uncashed.

Transaction Testing Results:

Findings: None.

Observations: INS determined that the Company's Escheatment and Missing Policyholders or Beneficiaries processes were adequate.

Recommendations: None.

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

Objective: The Standard addresses the return of the correctly calculated unearned premium in a timely manner when policies are canceled. See Appendix A for applicable statutes, regulations, and bulletins.

Controls Assessment: See Standard V-2

Controls Reliance: See standard V-2.

Transaction Testing Procedure: INS reviewed the Company's premium refund guidelines and unearned premium calculation procedures for five (5) homeowners and five (5) private passenger automobile policies. INS also interviewed staff responsible for policyholder services.

Transaction Testing Results:

Findings: None.

Observations: INS noted that the Company accurately calculated unearned premium and returned any premium refund promptly to the policyholder.

Required Actions: None.

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

Objective: This Standard addresses the Company's procedures to provide history and loss information to the insured on time. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company claims personnel and employee agents have access to policyholders' claims history and loss information.
- The Company's policy is to provide the insured with their claim history as requested promptly.

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: INS also interviewed Company personnel about their procedures to promptly respond to insureds' inquiries. In addition, reviewed claims documentation for the responsiveness of the Company to insureds' questions.

Transaction Testing Results:

Findings: None.

Observations: Based on the testing in claims and policyholder service and complaints, INS noted no evidence of delays in responding to insureds' claims history and loss information inquiries.

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

Objective: The Standard addresses whether the Company is charging premiums using properly filed rates. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company has written policies and procedures for processing new and renewal business.
- According to statutory and regulatory requirements, company policy prohibits unfair discrimination in applying premium discounts and general rating methodology.
- The Company obtains the driver's loss history from the Registry of Motor Vehicles to ensure rating classification for private passenger auto.
- For private passenger auto, the factors considered in the rating and underwriting process include are driving years' experience, claim history, license status, and outstanding balance with another insurance company.
- The Company does not utilize credit scores in private passenger automobile underwriting or rating.
- For private passenger auto, the Company utilized the Automobile Insurers Bureau ("AIB") base rates with deviations. Accordingly, 2017 and 2018 filings in effect for the examination period were filed with the Division and "Placed on File."
- The Company's underwriting department performs a quality assessment of all new business applications within a specified time frame to confirm it meets the Company's underwriting guidelines.
- The Company is subject to periodic audits by Commonwealth Automobile Reinsurers ("CAR") for compliance with statutes and CAR rules.
- For homeowners, the Company submitted a rate filing for 2017 and 2018 – the independent rate filings for these years were "Placed on File" and effective for the examination period.

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: INS interviewed Company personnel with responsibility for the underwriting and rating processes. INS selected 20 (twenty) new business homeowners and 20 (twenty) new business private passenger policies that were in effect during the examination period to determine if the rates charged were consistent with the filed rates. In addition, INS tested the classifications and underwriting practices for 25 (twenty-five) new and renewal homeowners and private passenger policies.

Findings: None

Observations: Based upon testing, the Company appears to have proper procedures and calculate policies correctly.

Recommendations: None.

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

Objective: The Standard addresses mandated underwriting disclosures, which are required in accordance with statutes, regulations, and Company policy. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's systems controls are designed to ensure that the mandated and Company required forms are attached to the policy.

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

Transactions Testing Procedures: As part of the underwriting review, INS reviewed the policies to ensure that any mandated required disclosures were in accordance with statutes, rules, and regulations.

Transactions Testing Results:

Findings: None.

Observations: Based upon testing, the Company provides all mandated disclosures and identifies them in the policy.

Recommendations: None.

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

Objective: The Standard addresses whether unfair discrimination occurs concerning rebating or inducing coverage purchase through commission adjustments. See Appendix A for applicable statutes, regulations, and bulletins.

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

- Employee agents have a monthly incentive available, which provides a payout relative to the policies and premium bound with the Company. Sales thresholds are updated monthly, and payouts increase as performance increases.
- The one independent agency receives payment according to the provisions of their contract with the Company.
- Company policy prohibits illegal rebating, commission cutting, or inducements. However, as it is primarily employee agents, this is not a significant concern.

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.

Transactions Testing Procedures: INS interviewed the Company's senior staff involved with producer licensing, who described the licensing and termination process. Additionally, the examiners reviewed 25 new business/renewal homeowners and 25 new business/renewal private passenger policies. Finally, INS reviewed documentation to determine if there was any evidence of illegal rebating, commission cutting or inducements.

Transactions Testing Results:

Findings: None.

Observations: The Company primarily utilizes exclusive employee agents and one independent agency with four agents. Upon testing the files, the examiners found no evidence of illegal rebating, commission cutting, or inducements. The Company's processes appear to be working appropriately.

Recommendations: None.

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

Objective: The Standard addresses whether unfair discrimination is occurring in insurance underwriting. See Appendix A for applicable statutes, regulations, and bulletins.

Controls Assessment: Refer to Standard VI-1.

Controls Reliance: Refer to Standard VI-1.

Transactions Testing Procedures: INS interviewed the Company's staff responsible for the underwriting area in conjunction with the review of 25 new business/renewal homeowners and 25 new business/renewal private passenger policies. INS reviewed the files to determine if there was any evidence in the rating or underwriting of unfair or discriminatory practices.

Transactions Testing Results:

Findings: None.

Observations: Upon testing of the files, there was no evidence of unfair or discriminatory practices. The Company's processes appear to be working appropriately.

Recommendations: None.

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

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

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's systems controls are designed to ensure that the mandated and Company required forms are attached to the policy.

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

Transactions Testing Procedures: As part of the file review, INS reviewed the policies to ensure the Company properly filed any policy forms during the examination period with the Division.

Transactions Testing Results:

Findings: None.

Observations: Upon testing, the Company appears to be filing all required forms to the Division.

Recommendations: None.

Standard VI-6. Policies, riders, and endorsements are issued or renewed accurately, timely and completely.

Objective: The Standard addresses whether the Company issues policies and endorsements timely and accurately. See Appendix A for applicable statutes, regulations, and bulletins.

Control Assessments: The examiners noted the following controls in the review of this Standard:

- The Company has written underwriting and rating policies and procedures reasonably designed to assure consistency in rating and underwriting.
- When a customer calls to cancel their policy, the responding agent will generate a Cancellation Release Form for the customer to complete. In addition, the Company requires the customer to confirm the registration cancellation by submitting a "Plate Return Receipt" for cancellation of an auto policy. Alternatively, the Company accepts a letter from the new carrier as sufficient documentation.
- Once the Company receives the necessary documents, it will cancel the policy using the effective date requested. The cancellation will be either pro-rata or flat upon the policy term expiration. Correspondence received by mail or courier is scanned and filed electronically. Then the communication is delivered to the appropriate department via an internal workflow application, as are inquiries from the company website. New Policy Sales and Customer Service queries are typically responded to within two business days. Inbound phone inquiries are handled in the order received.
- In addition, the Company conducts internal underwriting audits. Audits are scheduled to be conducted two times a year for each underwriter. The Company standard is to audit ten accounts per audit.

- The Company's underwriting department performs a quality assessment of all new business applications within a specified time frame to confirm it meets the Company's underwriting 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 Procedures: As part of the file review, INS reviewed the policies to ensure that endorsements and policies were issued accurately and promptly.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company has good systems to issue policies and endorsements timely and completely.

Recommendations: None.

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

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

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

- The Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks consistently and fairly.
- Applications for private passenger automobile and homeowners' policies may be rejected if they do not meet the Company's underwriting guidelines.
- If an application is rejected, it is the Company's policy to send out a written rejection to the consumer.

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.

Transactions Testing Procedures: INS interviewed the Company's staff responsible for the underwriting area in conjunction with reviewing ten (10) homeowners and ten (10) private passenger automobile declinations. Additionally, INS reviewed the rejections to determine if there was any evidence that the decision was not unfairly discriminatory and followed the Company guidelines.

Transactions Testing Results:

Findings: None.

Observations: None.

Recommendations: None

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

Objective: This Standard addresses notices to policyholders whether the reasons for cancellation and non-renewals are valid according to policy provisions and state laws. Declination notices are tested in Standard VI-7. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company has written procedures for cancellation of insurance coverage following statutory requirements.
- The primary reason for canceling private passenger automobile policies is non-payment of premium; however, it can also be for material misrepresentation or driver suspension.
- For homeowners' policies, the primary reason for cancellation is non-payment of premium. However, it can also be for substantial change in risk, failure to return signed application or material misrepresentation.

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: INS reviewed the Company's procedures, and twenty-five private passenger automobile and the population of thirty-two Company canceled/non-renewed homeowners' policies for the period of the examination and five insured initiated. All cancellations/non-renewals were evaluated for compliance with statutory and Company policy guidelines.

Transaction Testing Results:

Findings: None.

Observations: For the twenty-five private passenger auto cancellations/non-renewals, only two were genuine Company cancellations; the remaining twenty-three were insured-initiated. For the two Company cancellations, the Company provided timely and adequate notice to the insured with the specific reason for the cancellation.

For the thirty-two-homeowner cancellation/non-renewals the Company provided timely and adequate notice to the insured with the specific reason for the cancellation.

Recommendations: None.

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

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

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

- The Company requires compliance with underwriting guidelines.
- Company guidelines are designed to assure the rescissions and cancellations of policies are appropriate and reasonable.

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 Procedures: INS reviewed the Company's policies and procedures for rescissions.

Transaction Testing Results:

Findings: None.

Observations: INS reviewed the policies and procedures for rescissions, and they appear reasonable. The Company had no rescissions during the examination period.

Recommendations: None.

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

Objective: The Standard addresses whether credits, debits and deviations are consistently provided in the workers compensation market. See Appendix A for applicable statutes, regulations, and bulletins.

Controls Assessment: Refer to Standard VI-1.

Controls Reliance: Refer to Standard VI-1.

Transaction Testing Procedures: INS interviewed Company personnel with responsibility for the underwriting and rating processes. INS selected twenty (20) new business homeowners and twenty (20) new business private passenger policies that were in effect during the examination period, to determine if the credits, debits charged were applied in a consistent and non-discriminatory manner.

Transaction Testing Results:

Findings: None.

Observations: Based upon the testing results, INS determined that the Company applied credits, debits consistently and in a non-discriminatory manner.

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.

The examiners did not perform on this Standard. This Standard is not covered in the examination scope

because the Company does not write commercial policies, except for coverage issued to General Electric.

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

The examiners did not perform work on this Standard. This Standard is not covered in the examination scope because the Company does not write commercial policies, except for coverage issued to General Electric.

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

The examiners did not perform work on this Standard. This Standard is not covered in the examination scope because the Company does not write commercial policies, except for coverage issued to General Electric.

Standard VI-14. Verification of experience modification factors.

The examiners did not perform work on this Standard. This Standard is not covered in the examination scope because the Company does not write commercial policies, except for coverage issued to General Electric.

Standard VI-15. Verification of loss reporting.

The examiners did not perform work on this Standard. This Standard is not covered in the examination scope because the Company does not write commercial policies, except for coverage issued to General Electric.

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

The examiners did not perform work on this Standard. This Standard is not covered in the examination scope because the Company does not write commercial policies, except for coverage issued to General Electric.

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

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

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

- Company policy and practices prohibit unfair discrimination in underwriting and rating in accordance with statutory requirements.
- Written policy and procedure are adequate to ensure consistency in underwriting and rating at or near inception.
- The Company's underwriting department performs a quality assessment of all new business applications to confirm it meets the Company's underwriting 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 Procedures: INS interviewed underwriting management who has the responsibility for underwriting and discussed their procedures. INS selected twenty-five (25) private passenger automobile and twenty-five (25) homeowners policies that were issued or renewed within the examination period. INS reviewed these policies to ensure that decisions were based on information developed at inception rather than expiration or following a claim.

Transaction Testing Results:

Findings: None.

Observations: Based upon the testing results, INS determined that the Company underwriting guidelines, rating and classification are based on adequate information developed at inception.

Recommendations: None

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

No work performed. This Standard is not covered in the scope of examination because the Company does not write commercial policies, except for coverage issued to General Electric.

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

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

Controls Assessment: See Standard VI-5.

Controls Reliance: See Standard VI-5.

Transaction Testing Procedures: INS interviewed personnel responsible for filing of forms with the Division and discussed their procedures. INS reviewed these to ensure that forms and endorsements are listed on the declaration page.

Transaction Testing Results:

Findings: None.

Observations: Based upon the testing results, INS determined that the forms and endorsements are listed on the declaration page, and the Company is using approved endorsements.

Recommendations: None.

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

Objective: The Standard addresses whether the Company verifies that the VIN (Vehicle Identification Number) and symbol submitted with the application are valid and accurate. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company's underwriting guidelines were developed to reasonably assure consistency and accuracy in the classification and all aspects of underwriting.
- On the Company application, the VIN is required at the time the policy is written.
- When a pre-insurance inspection is required, the inspection station is required to verify the VIN.

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 Procedures: INS interviewed personnel responsible for the underwriting process and filing forms with the Division and discussed their procedures. INS selected twenty-five (25) private passenger automobile policies that were issued or renewed within the examination period. INS reviewed these to determine that the Company verifies the VIN and vehicle symbol at policy inception.

Transaction Testing Results:

Findings: None.

Observations: INS determined that the Company verifies the VIN and symbol at policy issuance based on the testing results.

Recommendations: None.

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

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

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

- The Company's policy is that underwriters or producers shall not engage in collusive anti-competitive underwriting practices.
- Following statutory and regulatory requirements, Company policy prohibits unfair discrimination in applying premium discounts and its general rating methodology.

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 Procedures: INS interviewed personnel responsible for the underwriting process and filing forms with the Division and discussed their procedures. INS selected twenty-five (25) private passenger automobile and twenty-five (25) homeowners policies for review. The examiners reviewed the files for collusive or anti-competitive underwriting practices.

Transaction Testing Results:

Findings: None.

Observations: Based upon the testing results, INS did not note any collusive or anti-competitive underwriting practices.

Recommendations: None.

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

Objective: The Standard addresses whether unfair discrimination is occurring in the underwriting practices of mass marketing plans. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and denial in the underwriting of mass marketing plans.
- The Company prohibits discrimination in the application of discounts in these plans.

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.

Transactions Testing Procedures: INS interviewed personnel responsible for the underwriting process. INS selected twenty-five private passenger automobiles and twenty-five homeowners policies. Fourteen of the twenty-five private passenger auto and twelve of the twenty-five homeowners policies were part of a mass-marketed group. Additionally, INS reviewed the policies for unfairly discriminatory underwriting practices.

Transactions Testing Results:

Findings: None.

Observations: Based upon testing, INS found no evidence of discriminatory underwriting practices.

Recommendations: None.

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

See Stand VI-1 and VI-22 for testing of this Standard.

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

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

- The Company's underwriting guidelines were developed to reasonably assure consistency and accuracy in the classification and all aspects of underwriting.
- The Company has a process to report correct policy data to the following rating bureaus AIB, CAR, and Insurance Services Office ("ISO") in the correct format.
- The Company has a process to correct data reported to the rating organizations, if needed.
- The Company is subject to periodic audits by the CAR.
- INS reviewed the Company's scorecard from the 2018 ISO Annual Performance Evaluation.

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 Procedures: INS interviewed personnel responsible for the underwriting process and the data reporting process. In addition, reviewed annual performance results from a rating organization.

Transaction Testing Results:

Findings: None.

Observations: Based upon the testing results, no issues were noted.

Recommendations: None

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

Objective: The Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company's underwriting guidelines require that all underwriting and rating decisions be fully and adequately supported.
- The Company's agents are responsible for ensuring the application is complete and properly signed by the insured.
- The Company's underwriting department performs a quality assessment of all new business applications within a specified time frame to confirm it meets the Company's underwriting 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 Procedures: INS interviewed personnel responsible for the underwriting process and filing of forms with the Division and discussed their procedures. INS selected twenty-five private passenger automobile and twenty-five homeowners policies for review. These files were reviewed to ensure applications are complete and properly signed.

Transaction Testing Results:

Findings: None.

Observations: Based upon the testing results, no issues were noted.

Recommendations: None.

VII. CLAIMS

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

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

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

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

- Written detailed policies and procedures govern the Company's claims handling processes.
- For personal lines, the Company's best practices indicate that Claims Administration will acknowledge receipt of a new claim within one day and continue attempted contact daily until initial contact. If the insured is at fault, the same practice applies to the claimant.
- For commercial lines, the claim handler initiates contact attempts within twenty-four hours upon receiving a new assignment. There should be evidence in the file that the claim handler was proactive in their attempt to identify and contact all involved parties via various resources (e.g., internet, ISO, cell phone, police report, etc.) until successful contact. Unanswered attempts at communication regarding a claim should be followed up with written correspondence whenever possible.
- The Company's procedures require the adjuster to maintain electronic and physical documentation to encompass all activities customarily used to handle claims. These activities are the investigation, evaluation, and negotiation.
- The Company issues reservation of rights letters when potential coverage issues arise, including lack of customer cooperation.
- The Company monitors claims service levels, including the percentage of calls answered within a specific time frame. In addition, the claims management will review two calls per month per claims handler for areas such as customer satisfaction with the response.
- Workers' Compensation claims, except those denied, are handled by a third-party administrator Sedgwick Claims Management Services, Incorporated. Sedgwick's role is to review all claims received, investigate claims submitted, and pay benefits if warranted. In addition, Sedgwick is responsible for maintaining a file for each claim and providing the Company with access to proprietary data management system. Sedgwick also provides the call center for claims reporting and handling.
- Denied workers' compensation claim files are handled directly by the Company.
- The Company performs audits of Sedgwick's workers' compensation claim handling annually. There are audits on the claims process, delegation of authority, accuracy of claims, etc.
- The Sr. Manager of Claims will coach claim staff on the attributes commonly found in a fraudulent case.

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: INS interviewed Company personnel to understand their claims handling procedures and obtained documentation supporting the procedures. INS reviewed twenty-five paid and

twenty-five denied private passenger auto claims, and twenty-five denied homeowners claims. For commercial lines, the population of the paid commercial automobile claims was fourteen and eight denied. For general liability, the population of paid and denied was ten and one, respectively. For workers' compensation, the population was twenty-four denied, and a sample of twenty-five paid that closed in 2018. These claims were tested to ensure the initial contact complied with Company procedures and statutes.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, INS determined the Company's procedures for providing timely initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

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

Controls Assessment: The examiners noted the following controls in the review of this Standard and Standard VII-3:

- Written policies and procedures govern the Company's claims handling processes.
- The Company's best practices indicate that Claims Administration will acknowledge receipt of a new claim within one day. Staff will continue attempting to contact the policyholder daily until successful. If the insured is at fault, the same practice applies to the claimant.
- The Company's workers' compensation procedure is to make indemnity payments: by day fourteen of disability, or within five days after notice of disability if the information is received after fourteen days of disability or by Jurisdictional requirement.
- The Company's workers' compensation procedure is to pay medical and expense payments within twenty-one days of receipt.

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: INS reviewed claims handling policies, procedures and obtained documentation supporting the processes. INS reviewed twenty-five paid, and twenty-five denied private passenger auto claims and twenty-five paid, and twenty-five denied homeowners claims. For commercial lines, the population of paid commercial automobile claims was fourteen paid and eight denied. For general liability, the population of paid and denied was ten and one, respectively. For workers' compensation, the population was twenty-four denied, and a sample of twenty-five paid that closed in 2018. The examiners confirmed the Company conducted timely investigations into claims as needed.

Transaction Testing Results:

Findings: None.

Observations: INS determined that claims were investigated according to the Company's policies and procedures. Based upon testing, the Company's processes for timely investigating claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

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

Controls Assessment: See Standard VII-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: INS reviewed claims handling policies, procedures and obtained documentation supporting the procedures. INS reviewed twenty-five paid and twenty-five denied private passenger auto claims and twenty-five paid and twenty-five denied homeowners claims. For commercial lines, the population of paid commercial automobile was fourteen paid and eight denied. For general liability, the population of paid and denied was ten and one, respectively. For workers compensation the population was twenty-four denied and a sample of twenty-five paid that closed in 2018. These claims were tested to ensure the claims were resolved timely.

Transaction Testing Results:

Findings: None.

Observations: INS noted that claims were resolved in a timely manner. Based upon testing, the Company's processes for timely handling claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company's policy is to handle each matter with "...diligence and assess exposures in a timely manner."

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: INS reviewed claims handling policies and procedures. INS reviewed twenty-five paid, and twenty-five denied private passenger auto claims and twenty-five paid, and twenty-five denied homeowners claims. For commercial lines, the population of paid commercial automobile claims was fourteen paid and eight denied. For general liability, the population of paid and denied claims was ten and one, respectively. For workers' compensation, the population was twenty-four denied, and a sample of twenty-five paid that closed in 2018. The claims process for the above-referenced claims was tested to ensure the Company responds to correspondence timely.

Transaction Testing Results:

Findings: None.

Observations: There were no instances of delayed claim correspondence noted during the file reviews. Based upon testing, 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. See Appendix A for applicable statutes, regulations, and bulletins.

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company maintains claim files in the respective areas responsible for claim payment.
- The Company's procedures require the adjuster to maintain electronic and physical documentation to encompass all activities customarily used to handle claims. These activities are the investigation, evaluation, and negotiation.

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: INS reviewed claims handling policies and procedures. INS reviewed twenty-five paid and twenty-five denied private passenger auto claims and twenty-five paid and twenty-five denied homeowners claims. For commercial lines, the population of paid commercial automobile was fourteen paid and eight denied. For general liability, the population of paid and denied was ten and one, respectively. For workers' compensation, the population was twenty-four denied, and a sample of twenty-five paid that closed in 2018. As part of the testing the examiners reviewed these files to ensure they included proper documentation.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, INS determined that the information maintained in the Company's claim files was adequate.

Recommendations: None.

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

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee and whether the Company provides appropriate protection of confidential information. See Appendix A for applicable statutes, regulations, and bulletins.

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company procedures require reference to the policy contract for claim provisions.
- The Company has specific procedures designed to maintain appropriate controls of personal and confidential claimant 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: INS reviewed claims handling policies and procedures. INS reviewed twenty-five paid, and twenty-five denied private passenger auto claims, as well as twenty-five paid and twenty-five, denied homeowners claims. For commercial lines, the population of commercial automobile claims was fourteen paid and eight denied. For general liability, the population of claims paid and denied was ten and one, respectively. For workers' compensation, the population was twenty-four denied, and a sample of twenty-five paid that closed in 2018. As part of the testing the examiners reviewed these files to ensure they were handled in accordance with policy provisions and applicable statutes.

Transaction Testing Results:

Findings: None.

Observations: INS determined that the Company properly handles the claims in accordance with policy provisions and applicable statutes (including HIPPA), rules and regulations.

Recommendations: None.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company receives claim notifications from a variety of sources.
- For workers' compensation, the Company utilizes the appropriate Department of Industrial Accidents forms.

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: INS reviewed claims handling policies, procedures and obtained documentation supporting the procedures. INS reviewed twenty-five paid, and twenty-five denied private passenger auto claims and twenty-five paid, and twenty-five denied homeowners claims. For commercial lines, the population of commercial automobile claims was fourteen paid and eight denied. For general liability, the population of paid and denied was ten and one, respectively. For workers' compensation, the population was twenty-four denied, and a sample of twenty-five paid that closed in 2018.

Transaction Testing Results:

Findings: None.

Observations: INS determined that the Company uses appropriate claim forms for the product offerings and is in compliance with this Standard.

Recommendations: None.

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

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

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

- Written policies and procedures govern the Company's reserve process and review.
- The Company establishes the initial reserve when the claim is received.
- All requests for reserve & settlement authority from \$25K - \$100K appear in a Large Loss Report ("LLR"). The LLR goes to Manager Commercial Lines / Personal Lines Auto & Home Litigation for review, and the claim handler receives a determination. All requests for reserve & settlement authority from \$100K - \$500K are first reviewed with Manager Commercial Lines / Personal Lines Auto & Home Litigation and then with Sr. Litigation Counsel. Next, a formal request issues to Director, PL Claims Operations via a PowerPoint slide. All requests for reserves & settlement authority of more than \$500K are reviewed with Manager Commercial Lines / Personal Lines Auto & Home Litigation and Director, PL Claims Operations before being presented to the President and CFO via a PowerPoint slide.

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: INS reviewed claims handling policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: INS noted the reserves for the tested claims were established and adjusted, as needed, over the life of the claim according to the Company's procedures.

Recommendations: None.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The liability evaluation should reflect an examination of all the facts and relevant information gathered. It should also reflect consideration of jurisdictional and legal issues as well as an analysis summarizing the final assessment of liability to each party involved.
- An adjuster may deny a claim only after conducting a thorough and prompt investigation of the facts, liability, and damages.
- Commercial Lines (Liability): Upon completion of the claims handler's investigation of the loss and if it determined that the insured was not liable, a "denial of liability" letter goes to the claimant indicating our liability determination and reasoning.
- Commercial Lines Coverage: Before disclaiming coverage, the Vice President of Commercial Lines Underwriting needs to review the reasons and approve all coverage denials. Coverage denial letters must cite the specific facts and the policy language which is relied upon to deny coverage.
- Personal Lines Coverage: Before disclaiming coverage, the Associate GC/PL Legal Counsel needs to review the reasons and approve all coverage denials, any SIU-related denial, and any denial that has sensitivities. Requests for coverage denial should be submitted through Support Central. No letter is approved unless the Associate GC/PL Legal Counsel specifically documents the claim file so that a note is burned into the file. Coverage denial letters must cite the specific facts and the policy language which is relied upon to deny coverage.

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

Transaction Testing Procedure: INS reviewed claims handling policies, procedures and obtained documentation supporting the procedures. INS reviewed twenty-five denied private passenger auto claims and twenty-five denied homeowners claims. For commercial lines, the population of commercial

automobile denied claims was eight. For general liability, the population was one. For workers compensation the population was twenty-four denied that closed in 2018. These claims were tested to ensure the denial and closed without payment complied with Company procedures and statute.

Transaction Testing Results:

Findings: For one homeowner claim, the Company failed to act promptly in the denial of the claim in violation of M.G.L c 176D, § 3(9)(f) and 3(9)(n).

Observations: The Company's claim handling and denial practices are reasonable and in accordance with its policies, procedures, and statutory requirements, with the one exception noted above.

Required Actions: The Company shall remind the appropriate Company staff of their responsibility to act promptly in the denial or acceptance of a claim as specified in M.G.L c 176D, § 3(9)(f) and 3(9)(n) and the Company procedures.

Subsequent Company Action: Since this claim settlement, the Company's process has changed from a manual process, where hard copies of denial letters went to all management for review, to an automated process, where denial letters proceed to managers and others for review and tracking via an email distribution group. As a result, the Company does not anticipate that this error will reoccur in the future.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- For recoveries, all payments received by EIC are sent directly to the Finance Department for processing. The appropriate claim handler gets a copy of the check indicating the Company received payment. The claims handler will process/note the file of the recovery amount, payee, pacarrier, and what the check is covering (deductible, % of reimbursement, overpayment, etc.)
- For void/stale checks, Finance receives a data pull of uncashed checks issued by EIC that are over 180/days old. Finance will email the claim's handler advising of the check as for the following: void/cancel/reissue. The claims handler will investigate and determine if the check needs to be voided / canceled or reissued and advise Finance.

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: INS reviewed claims handling policies, procedures and obtained documentation supporting the procedures. INS reviewed twenty-five denied private passenger auto claims and twenty-five denied homeowners claims. For commercial lines, the population of commercial automobile denied claims was eight. For general liability, the population was one. For workers compensation the population was twenty-four denied that closed in 2018. As part of this review the

benefit check payments were considered.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's claim check issuance procedures were appropriate and functioning in accordance with its policies and procedures. No significant delays were noted between claim assessment and payment of benefits.

Recommendations: None.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company's procedure is to evaluate the loss and should be based on documented information and updated based on future developments. The loss evaluation rationale and an analysis of the special and general damages should be included in the file along with the supporting documents provided by the claimant. Offers to settle all claims should be up to the estimated settlement range. If offers are made above the range, the claim handler will document the rationale behind this decision.
- The Company maintains documented claim files to support claims payment or denial decisions.

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: INS reviewed claims handling policies and procedures and claims that closed in 2018.

Findings: None.

Observations: There were no findings of unfair transactions made by the Company during the claims process that would compel litigation. The Company is in compliance with this Standard.

Recommendations: None.

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

Objective: The Standard addresses whether the Company's use of reservation of rights letters, and its procedures for notifying an insured when it becomes apparent there may be a question of coverage and/or the amount of the loss will exceed policy limits. See Appendix A for applicable statutes, regulations, and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1

Transaction Testing Procedure: INS reviewed claims handling policies and procedures. INS reviewed twenty-five paid private passenger auto claims and twenty-five paid homeowners claims. For commercial lines, the population of paid commercial automobile claims was fourteen paid. INS reviewed ten general liability paid claims and twenty-five paid workers' compensation claims. As part of this review, the benefit check payments were considered. INS noted whether the reservation of rights or excess of loss letters were warranted and issued as part of the review.

Findings: None.

Observations: There were no findings of failure to include or of inappropriately including a reservation of rights or excess of loss letter. The Company's procedure appears to be working appropriately.

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 is timely and appropriately reimbursing the deductible upon subrogation recovery. See Appendix A for applicable statutes, regulations, and bulletins.

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

- Written policies and procedures govern the Company's claims handling processes.
- For personal lines most if not all the Company's Massachusetts private passenger automobile policies carry the standard waiver of deductible endorsement which allows them to waive the insured's deductible (at time of payment and prior to initiating subrogation) when it is the claim determination that the insured is not at fault.
- In the rare instance when the insured does not have the waiver, (and are not at fault) the Company will contact the liability carrier requesting they accept liability and commit to paying, so the Company can pay the insured's damages in full.
- For commercial insurance, the Company has policies and procedures to ensure payments are made promptly upon receipt. In addition, if subrogation file remains open will document file for status and follow-up, as needed.

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

Transaction Testing Procedure: INS reviewed claims handling policies and procedures. INS reviewed

twenty-five paid private passenger auto claims and twenty-five paid homeowners claims. For commercial lines, the population of paid commercial automobile was fourteen paid. INS reviewed ten general liability paid claims and twenty-five paid workers compensation claims. As part of this review the benefit check payments were considered. As part of the review INS took note whether deductible reimbursement to insureds upon subrogation recoveries were returned timely and accurately.

Findings: None.

Observations: There were no findings of failure to return subrogation recoveries promptly and accurately. The Company's procedure appears to be working appropriately.

Recommendations: None.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company has a process to report correct policy data to the following rating bureaus AIB, CAR, and ISO in a valid format.
- The Company has a process to correct data reported to the rating organizations if needed.
- The Company is subject to periodic loss data audits by the CAR.
- INS reviewed the Company's scorecard from the 2018 ISO Annual Performance Evaluation.

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: INS reviewed claims handling policies and procedures and personnel to better understand the loss statistical coding.

Findings: None.

Observations: Based on the review of the documentation and testing provided, INS found no issues. The Company's procedure appears to be working appropriately.

Recommendations: None.

SUMMARY

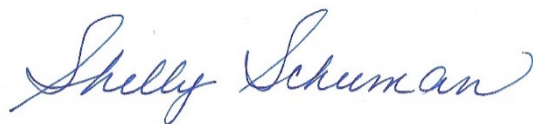
Based upon the procedures performed in this examination, INS has reviewed and tested company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims in accordance with the standards as set forth in the *2018 NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. The Division has mandated required actions to address concerns in policyholder services and claims.

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with INS Regulatory Insurance Services, Inc., applied certain agreed-upon procedures to the corporate records of the Company for the Division of the Commonwealth of Massachusetts to perform a comprehensive market conduct 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 NAIC and the Handbook. This participation consisted of involvement in the planning (development, supervision, and review of agreed-upon procedures), administration and preparation of the comprehensive examination report.

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



Shelly Schuman
Supervising Insurance Examiner,
The INS Companies
Market Regulation Division
Philadelphia, Pennsylvania