



**THE COMMONWEALTH OF MASSACHUSETTS**

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS  
REGULATION**

**DIVISION OF INSURANCE**

*Report on the Comprehensive Market Conduct Examination of*

*Encompass Insurance Company  
Of Massachusetts*

*Quincy, Massachusetts*

*For the Period January 1, 2015 through December 31, 2015*

**NAIC COMPANY CODE: 12154**

**EMPLOYER ID NUMBER: 04-3345011**

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## COMMONWEALTH OF MASSACHUSETTS

### Office of Consumer Affairs and Business Regulation

#### DIVISION OF INSURANCE

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**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

January 28, 2019

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, Section 4, a comprehensive examination has been made of the market conduct affairs of

ENCOMPASS INSURANCE COMPANY OF MASSACHUSETTS

at their office located at:

4 Batterymarch Park,  
Quincy, Massachusetts 02169

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 Encompass Insurance Company of Massachusetts (“Encompass” or the “Company”) for the period January 1, 2015 to December 31, 2015, with focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of INS Regulatory Insurance Services, Inc. (“INS”) were engaged to complete the examination.

The findings and observations expressed in this Report are based upon material and information provided by the Company as of July 2, 2018. On July 1, 2017, Encompass withdrew from the Massachusetts market and no longer offered renewals for their existing personal auto and homeowners portfolios. A replacement carrier agreement was entered into with The Hanover Insurance Group to issue renewal offers for Encompass policyholders after July 1, 2017. Encompass did not give up its license to operate in Massachusetts.

## EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2015 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 domiciliary regulator’s financial examination of the Company. For those objectives, INS and the market conduct examination staff relied on procedures performed by the domiciliary regulator’s financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

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

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

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## **EXECUTIVE SUMMARY**

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

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

With regard to Company Operations and Management, Complaints, Producer Licensing, Underwriting and Rating, and Claims, the examination resulted in four recommendations, one observation with no recommendation at this time and one required action.

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

### Standard I-9

**Findings:** The Company's level of cooperation and responsiveness to examiner requests was assessed throughout the examination process. The Company's level of cooperation and responsiveness to examiner requests was adequate. The Company examination coordinator was consistently responsive to examiner requests during the examination and there were no concerns about company responsiveness during the examination process.

**Observations:** However, several items requested were not provided to the examiners by the due dates, and in some cases, not provided until deep into the on-site portion of the examination.

**Recommendation:** The Company should ensure that all items requested by the examiners are provided in a timely fashion.

## **SECTION II – COMPLAINT HANDLING**

### Standard II-3

**Findings:** Although the Company's response to the complaints fully addressed the issues raised, and showed that policyholders or consumers with similar fact patterns are treated consistently and fairly, the examiners made the following Observation:

**Observation:** INS noted that for the 5 complaints forwarded by the Division, the Company did not provide with their response all documentation requested by the Division to fully address the issues raised in their correspondences.

**Recommendation:** On all future responses the Company should ensure that all documentation requested by the Division is provided in full.

## SECTION IV – PRODUCER LICENSING

### Standard IV-3

Findings: INS reviewed the standard contract for independent agencies and said contract stated “This Agreement may be terminated by you or us upon written notice of intention to terminate directed to the other party at least 90 days prior to the termination date”.

The Company is in violation of M.G.L. c. 175, § 163 by having their Agency Agreement reflect 90 days notice in advance of the termination, (except in the case of “for cause” terminations), instead of the required 180 days notice in advance of the termination.

All the terminations that occurred in 2015 complied with the law.

Observations: For the appointment terminations tested, the Company did properly notify the producers about terminations, if applicable, and the Division through the OPRA system, in compliance with statutory requirements. However, contract language specified a lesser requirement.

Required Action: The Company shall revise their Agency Agreement to reflect a notice requirement of 180 days in advance of the termination, except in the case of “for cause” terminations, as required by M.G.L. c. 175, § 163.

## SECTION VI – UNDERWRITING AND RATING

### Standard VI-8

Findings: The examiners found that the Property Notice of Nonrenewal of Insurance did not alert the policyholder who to contact in the event they want to appeal the action, or in the cases where the action is the result of a “recent property inspection”, who performed said inspection and how to get a copy of the inspection report to ensure accuracy. The Property Notice of Nonrenewal to the policyholder merely states “You should contact your agent concerning coverage through another insurer or your eligibility for coverage through the Massachusetts Property Insurance Underwriting Association.”

Observations: Based upon testing the Company provided timely and adequate notice to policyholders for company-initiated cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons were reasonable and in compliance with statutory and regulatory requirements.

Recommendation: The Company should add to this Notice, appropriate language addressing the above finding.

### Standard VII-9

Findings: For one denied claim the company did not send a proper denial letter to the policyholder. The content of the letter was blank. In another homeowner claim, the “form fields” were not completed.

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

Recommendation: The Company should review all letters before they are mailed to policyholders to ensure that incomplete documents are not sent.

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## **COMPANY BACKGROUND**

Encompass Insurance, which today includes Encompass Insurance Company of Massachusetts, as well as non-Massachusetts affiliated insurers, began in the 1950s as part of a product portfolio for CNA, a large multi-line insurer that wrote through independent agencies. It became a distinct business unit in the mid-1990s after CNA's merger with Continental Insurance Company. Allstate Insurance Group assumed operational control in 1999 via a reinsurance contract and assumed the business outright in October 2005. On July 1, 2017, Encompass withdrew from the Massachusetts market and no longer offered renewals for their existing personal auto and homeowners portfolios. A replacement carrier agreement was entered into with The Hanover Insurance Group to issue renewal offers for Encompass policyholders after July 1, 2017. Encompass did not give up its license to operate in Massachusetts.

Encompass Insurance products and services are offered exclusively in the United States of America and are available in 41 states. There are more than 1.2 million customers through more than 2,800 independent insurance agents and more than \$1.7 billion in personal insurance written premium.

During the period of review, Encompass Insurance Company of Massachusetts was licensed only in Massachusetts, and only writes business in Massachusetts. It was founded in 1997.

Encompass specializes in personal insurance, selling exclusively through independent agencies. Their signature product is the Universal Security Policy ("USP") which allows the insured to write auto, home (residence including inland marine which is available by scheduled personal property endorsement), dwelling fire, boat and umbrella liability on one package policy with four coverage levels. The USP is underwritten by one or more underwriting companies, one of which is Encompass.

In Massachusetts, USP relates to "Other than Auto" coverage. Both Auto and "Other than Auto" are separate contracts, not packages, and are underwritten exclusively with Encompass as the underwriting company.

Encompass maintains a financial strength rating of A+ (Superior) from A.M. Best. The following financial information is as of the year ended December 31, 2015:

Encompass Insurance Company	
Admitted assets	\$6,387,000
Statutory surplus	\$6,301,000
Direct written premiums	\$36,685,000
Massachusetts direct written premiums	\$36,685,000

## **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.

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

Objective: This Standard addresses whether the Company has an up-to-date valid internal or external audit program. See Appendix A for applicable statutes, regulations and bulletins.

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

The Company's statutory financial statements are audited annually by an independent auditor. The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers



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(“CAR”) for compliance with statutes and CAR Rules of Operation. CAR is the residual market administrator and designated statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing automobile insurance in Massachusetts.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included internal audit and quality assurance audit processes. INS reviewed the documentation provided and the recent CAR Private Passenger Hybrid Audit Plan (HAP) Audit. In addition, the Company provided a listing of all fines, penalties and recommendations from any state for the last five (5) years. Also provided were copies of all Financial and Market Conduct Examination reports conducted during the last five (5) years and Annual Statements for the last three (3) years.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have up-to-date valid internal and external audit programs and they have adopted appropriate policies and procedures that ensure audits or reviews are conducted timely.

Recommendations: None.

<p><b>Standard I-2. The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.</b></p>
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Objective: This Standard addresses the controls, safeguards and procedures for protecting the integrity of computer information. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Information Security Program is developed by Allstate Insurance Company for the Allstate Corporation and the program applies to authorized users who have been granted access to the Allstate network. The Encompass branded companies are affiliate companies of Allstate Insurance Company.
- To help Allstate identify, protect, detect, respond and recover from potential breaches or other threats, the company has established an Information Security Program (“Program”).
- This Program is designed, operated and managed with the intent of protecting Allstate’s information assets to maintain customer and employee trust. It is aligned to accepted industry practices and standards such as the National Institute of Standards and Technology Cybersecurity Framework.
- The control environment over cybersecurity is a continual emerging risk due to an evolving external environment and the volume of threats Allstate receives.
- The Program operates under the governance of an established Information Security Council and Enterprise Information Security Policy.
- Network vulnerability and penetration testing is leveraged to validate the integrity of these controls and identify areas for remediation. The Company utilizes a Supplier Security Risk Management program that reviews the adequacy of security controls in place at third-party organizations that may access, process or store Allstate’s information.
- Allstate periodically engages external third parties to validate the quality and strength of the Program.

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- Allstate's Information Security team consists of more than 195 dedicated security practitioners under the leadership of a designated Chief Information Security Office.
- The Information Security team includes the Intelligence and Security Operations Center ("ISOC"), which concentrates on management of technologies and services required for the prevention, discovery and management of threats both internal and external to the corporation.
- Allstate has information security capabilities to assess, prevent, detect, respond and recover from a multitude of threats that could impact the Company.
- The Company has established categories of data and structured their controls in order to protect the confidentiality, integrity and availability of systems and data based on the sensitivity and criticality of the information in the Company's environment.
- Allstate manages information security at the enterprise level, and Allstate manages information security issues.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed the documents containing the above processes, programs and statements.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adopted controls, safeguards and procedures for protecting the integrity of computer information.

Recommendations: None.

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

Objective: This Standard addresses the effectiveness of the Company's antifraud plan and whether those initiatives are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company maintains a Special Investigation Unit ("SIU") that is devoted to investigating suspicious claims, training employees on fraud awareness and detection, as well as cooperating with the Insurance Fraud Division, the Massachusetts Insurance Fraud Bureau ("IFB"), the National Insurance Crime Bureau, and governmental agencies including law enforcement.
- Additionally, the Company has security procedures in place that are designed to detect 1) non-claim fraud for policies and 2) potential internal fraud.
- The Special Investigation Unit investigates suspicious claims.
- Claims that meet specific fraud indicators are referred to the SIU.
- Procedures require management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud to report potential fraud to the SIU.
- The SIU is responsible for investigating claimant fraud, producer fraud and underwriting fraud.
- Claim adjusters receive training regarding fraud red flags and use judgment to make referrals to SIU. In cases where fraud is believed to have occurred, SIU will assist with criminal investigation

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and prosecution.

- All prospective employees are subjected to a criminal background check prior to hiring.
- The Company's Code of Conduct and Conflict of Interest Policy are provided to all employees and are maintained online. All employees are asked to read them and acknowledge they have complied with these policies and procedures. Officers and Directors must annually complete a conflict of interest questionnaire and disclose any conflicts of interest.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included antifraud initiatives and Code of Conduct policies as part of claims and underwriting testing.

Transaction Testing Results:

Findings: None.

Observations: The Company has adopted reasonable procedures related to antifraud initiatives, compliance procedures, Code of Conduct policies and prospective employee hiring. It appears that the Company has antifraud initiatives in place and that claims representatives are sufficiently trained to detect, prevent and fully investigate fraudulent insurance acts.

Recommendations: None.

<b>Standard I-4. The regulated entity has a valid disaster recovery plan.</b>
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Objective: This Standard addresses the effectiveness of the Company's disaster recovery plan. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard:  
The Company has a disaster recovery plan.  
The Company has performed disaster recovery testing on a regular basis.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included the Disaster Recovery Plan and testing of the plan.

Transaction Testing Results:

Findings: None.

Observations: The Company has adopted reasonable procedures related to disaster recovery. The Company has conducted disaster recovery training with its personnel.

Recommendations: None.

**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, Managing General Agents (“MGAs”), General Agents (“GAs”), Third Party Administrators (“TPAs”) and management agreements must comply with applicable licensing requirements, statutes, rules and regulations.**

*Objective:* This Standard addresses the Company’s contracts with entities that assume a business function or are acting on behalf of the Company and if those companies are in compliance with applicable licensing requirements, statutes, regulations and bulletins. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company specializes in personal insurance, selling exclusively through independent agencies. Their signature product is the Universal Security Policy (“USP”) which allows the insured to write auto, home (residence including inland marine which is available by scheduled personal property endorsement), dwelling fire, boat and umbrella liability on one package policy with four coverage levels. The USP is underwritten by one or more underwriting companies, one of which is Encompass Insurance Company of Massachusetts.
- In Massachusetts, USP relates to “Other than Auto” coverage. Both Auto and “Other than Auto” are separate contracts, not packages, and are underwritten exclusively with Encompass Insurance Company of Massachusetts as the underwriting company. Encompass Insurance Company of Massachusetts is licensed only in Massachusetts, and only writes business in Massachusetts.
- The Company does not use MGAs, GAs, TPAs or management agreements.
- The Company has contracts with several vendors for various applications used in underwriting and rating, repairs, and contractors. These vendors include software vendors for various computer systems.
- The Company monitors outside contracts for performance.

*Controls Reliance:* Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* INS reviewed documents from Company personnel whose responsibility included management, about its use of third parties to perform certain Company functions. In addition, INS reviewed various contracts used by the Company with its various business functions.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon review and testing, it appears that the Company’s contracts with entities assuming a business function on its behalf are in compliance with statutes, regulations and bulletins.

*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 or are acting on the Company’s behalf. See Appendix A for applicable statutes, regulations and bulletins.

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Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included management about its monitoring of third parties that perform Company functions. INS reviewed producer applications that support the new or renewal business sold. In addition, INS reviewed claims handling documentation during testing. INS also reviewed several monitoring reports for selected contracts.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company adequately monitors the activities of third parties assuming a business function, according to statute, regulation and bulletin.

Recommendations: None

<b><u>Standard I-7. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.</u></b>
---

Objective: This Standard addresses whether the Company's records are adequate, accessible, consistent, orderly and comply with the Company's record retention requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has adopted record retention requirements for various documents and records.
- The record retention requirements include guidelines for management, maintenance and disposal of records, and the length of time specific documents must be retained.
- The Company has adopted Enterprise Security Standards that are the Records and Information Management ("RIM") Standards.
- Every Company employee is required to review the standards as part of the Annual Certification process.
- Stored records are located at a regional records center.
- In addition to the RIM Standard, employees are required to review and acknowledge the Information Technology Usage Policy and the Information Security Policy.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed the Company's record retention policies and procedures and evaluated them for completeness and reasonableness.

Transaction Testing Results:

Findings: None

Observations: The Company's record retention policies appear thorough and reasonable.

Recommendations: None.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard is concerned with the Company's cooperation and response 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: Not applicable.

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

Transaction Testing Results:

Findings: The Company's level of cooperation and responsiveness to examiner requests was assessed throughout the examination process. The Company's level of cooperation and responsiveness to examiner requests was adequate. The Company examination coordinator was consistently responsive to examiner requests during the examination and there were no concerns about company responsiveness during the examination process.

Observations: However, several items requested were not provided to the examiners by the due dates, and in some cases, not provided until deep into the on-site portion of the examination.

Recommendations: The Company should ensure that all items requested by the examiners are provided in a timely fashion.

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

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

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

- The Company's policy for sharing personal information is limited to affiliates and non-affiliates who provide services to the Company and in processing business transactions for its customers.
- The Company provides the privacy notice on its website.
- The Company provides the privacy notice at time of issue and time of renewal.
- The Company does not share information with other companies for marketing purposes, therefore, no opt out notice is given.
- The Company's policy is to disclose information as required or permitted by law to regulators, law enforcement agencies, and antifraud organizations.
- The Company provided the management structure as it relates to property and casualty insurance compliance issues.

*Controls Reliance:* Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* INS reviewed documents from Company personnel whose responsibility included responsibility for privacy and information security compliance. INS reviewed documentation supporting privacy and information security policies and procedures.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon review and completion of underwriting and claims testing, the Company's privacy and information security practices seem to minimize any improper intrusion into individuals' privacy.

*Recommendations:* None.

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

*Objective:* This Standard addresses whether the Company has developed and implemented written policies, standards and procedures for the management of insurance 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 documents from Company personnel whose responsibility included privacy compliance, and reviewed documents supporting its privacy policies and procedures.

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Transaction Testing Results:

Findings: None.

Observations: Based upon INS's review, the Company's policies and procedures appear to protect consumers' nonpublic personal information. INS did not detect any instances where the Company inappropriately provided personal information to parties that did not have a business function.

Recommendations: None.

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

Objective: This Standard addresses policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers who are not customers. 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 documents from Company personnel whose responsibility included privacy compliance. INS reviewed documents supporting the Company's privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: Based upon INS's review, the Company's policies and procedures appear to adequately protect consumers' nonpublic personal information.

Recommendations: None.

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

Objective: This Standard addresses the Company's practice of providing privacy notices to customers and consumers and the treatment of nonpublic personal financial 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 documents from Company personnel whose responsibility included privacy compliance. INS reviewed documents supporting the Company's privacy policies and



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procedures. INS examined whether the privacy notice provided sufficient information and disclosures. INS selected 10 private passenger automobile policies and 10 property policies issued or renewed during the examination period, to test whether a consumer privacy notice was provided.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses policies and procedures regarding opt out rights and whether 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. 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 documents from Company personnel whose responsibility included privacy compliance. INS reviewed documents supporting the Company's privacy policies and procedures including whether the Company uses opt out notices.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included collection of nonpublic personal financial information. INS reviewed documents supporting the Company's privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: Based upon INS's review and testing of the Company's policies and procedures, the Company properly collects, uses and discloses nonpublic personal financial information.

Recommendations: None.

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

Objective: This Standard addresses whether the Company has policies and procedures to maintain the privacy of nonpublic personal health information except as permitted by law. 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 documents from Company personnel whose responsibility included collection of nonpublic personal health information. INS reviewed documents supporting the Company's privacy policies and procedures. INS found no instances of improper release of nonpublic personal health information.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, INS noted the Company did not improperly disclose nonpublic personal health information.

Recommendations: None.

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

Objective: This Standard is whether the Company's information security program for the protection of nonpublic customer information is sufficient. See Appendix A for applicable statutes, regulations and bulletins.

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

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- Allstate Insurance Group has an extensive Human Resource Policy Guide which includes procedures for the treatment of personal, confidential and proprietary information. The Guide addresses customer and employee privacy.
- The Company's employees are required to annually certify compliance with Allstate's Corporate Code of Ethics which includes provisions on protecting personal data.
- The Company has adopted the Allstate Information Security controls, which include Security Policies, Enterprise Security Standards, Application Development Standards, Privileged Account Management, and Secure Deployment.
- The Company's Information Security Policies, Standards and Guidelines include:
  - Acceptable Use
  - Access Control
  - Application Security
  - Asset Protection
  - Communications Security
  - Data Protection
  - Database Security
  - Endpoint Security
  - Network Security
  - Platform Security

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included information security compliance. INS reviewed documents supporting the Company's information security policies and procedures.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard I-18. All data required to be reported to Departments of insurance is complete and accurate.</b>
--

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

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

- The Company's policy administration and claims systems compile and retain underwriting and claims data for inclusion in MCAS.
- The Company reviews the draft MCAS for unusual items and makes changes to the draft as appropriate prior to submission of the MCAS to the NAIC.

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- The Company employs various checks and balances to ensure required data is reported accurately.
- These validations include; comparing current year to prior year results, reviewing average premium trends year over year to validate consistency, identify and research inconsistencies amongst the data, and engage state teams to explain out of pattern results.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included reviewing the 2015 MCAS data for unusual results and concerns.

Transaction Testing Results:

Findings: None.

Observations: Based upon INS's review of the Company's 2015 private passenger automobile underwriting and claims data, no unusual results and concerns were noted, and the data reported in MCAS appears to be reasonably complete and accurate.

Recommendations: None.

## II. COMPLAINT HANDLING

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

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

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

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

- The Company defines a complaint as any written or oral correspondence expressing dissatisfaction.
- Complaints are usually received by the agent. Very rarely does a complainant contact the Company directly. If they do, they are initially referred to the agent. If the agent cannot satisfy the complainant, the agent sends an e-mail to Allstate Solutions Acceleration Process ("ASAP") for handling. The agents have an email box to send an email which gets routed to ASAP.
- Encompass has one dedicated complaint staff member and two backups. When a complaint is received, the complaint handler logs the complaint in the Allstate Response System ("ARS") and assigns a due date. The complaint is also entered on the Complaint Log located on their shared drive. After the complaint has been logged, it is forwarded to the appropriate area/person for handling. Processing and underwriting complaints for Encompass are handled in the Roanoke office. Claims complaints are forwarded to the appropriate Claims Department for handling.
- The Company complaint register contains the Company complaint number, date created, date closed, line of business, complainant name, policy number, department, root cause, how claim is reported (telephone, e-mail, or other method), nature of complaint, action taken, agent number, and any additional remarks.
- The complaint handler is responsible for reviewing the complaint and pulling any necessary additional items, such as the policy fiche, proof of mailing, a copy of the legal notice, rate pages, or policy declaration pages. When the response has been completed, copies of the complaint and response letter, along with any supporting documents are all attached to the ARS file.
- When the response is ready to be sent, it is mailed or faxed to the requestor. The complaint is then closed out in both the ARS system and on the Complaint Log.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its web-site.
- There is a team in Home Office that monitors social media and refers any specific communications that can be identified as a complaint to the ASAP for handling. As the Company has such a small amount of business the number of complaints received is small.
- Management run reports of pending complaints including who is handling and how long it has been open. There are on-line resources available to assist staff in drafting proper responses. In addition, quality assurance reviews are conducted monthly and a sample letter is reviewed to ensure accuracy.

*Controls Reliance:* Controls tested through documentation and/or requests 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 examined evidence of the Company's related processes and controls. INS reviewed the Company's complaint registers for 2015, to evaluate the Company's compliance with statutory complaint requirements. INS also reviewed the Company's complaint registers for 2015 to determine whether they properly

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contained all Division complaints.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: INS interviewed management and staff responsible for complaint handling and examined evidence of the Company's related processes and controls. INS reviewed 10 regulatory and/or Company complaints for 2015, to evaluate the Company's compliance with statutory complaint requirements. INS reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. In addition, INS reviewed the Company's website and communications to policyholder and consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>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.</b>
--

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

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Transaction Testing Procedure: INS interviewed management and staff responsible for complaint handling and examined evidence of the Company's related processes and controls. INS reviewed 10 regulatory and/or Company complaints for 2015 to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

Observations: INS noted that for the 5 complaints forwarded by the Division complaints the Company did not provide with their response all documentation requested by the Division to fully address the issues raised in their correspondences.

Recommendations: On all future responses the Company should ensure that all documentation requested by the Division is provided in full.

**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 examined evidence of the Company's related processes and controls. INS reviewed 10 regulatory and/or Company complaints for 2015, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company addressed the tested complaints by the due date. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

### III. MARKETING AND SALES

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

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

*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 and sales materials and if those materials are in compliance with applicable statutes, regulations and bulletins. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company does not do mass marketing.
- The Company does not advertise via television, radio or direct mail in Massachusetts.
- The company uses the internet to promote its products via its website; however, the Company does not sell online.
- The Company does advertising through independent agencies.
- The Company provides marketing and sales material to its independent agencies for their use.
- Independent agents have the option of ordering consumer facing materials which they could then distribute at their discretion.
- The Company maintains a sales materials and advertising log to track all such materials reviewed by the Company's Legal Division.
- The Company discloses its name and address on its website.

*Controls Reliance:* Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* INS reviewed documentation from Company personnel with responsibility for reviewing, approving and maintaining sales and advertising materials, and obtained supporting documentation. INS selected twenty-one sales materials utilized during the examination period and reviewed them for accuracy and reasonableness. INS also reviewed the Company's website for disclosure of its name and address.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* All sales materials reviewed appeared accurate and reasonable. Also, the Company's website disclosure complies with Division requirements.

*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 internal producer training materials are in compliance with applicable statutes, regulations and bulletins. See Appendix A for applicable statutes, regulations and bulletins.

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

- Agents are encouraged to complete at least 3 core courses in home, billing and rating software.
- Encompass provides Massachusetts appointed agents with access to interactive eLearning legally approved courses for all products on the company website.
- Training for the Massachusetts auto program is provided by the assigned Territory Sales Consultant as a separate system

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed documentation from Company personnel with responsibility for developing agent training materials for the Company's producer training.

Transaction Testing Results:

Findings: None

Observations: Based upon review, the Company's producer training process and producer communications appear adequate and reasonable.

Recommendations: None.

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

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers are in compliance with applicable statutes, regulations and bulletins. 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 reviewed documentation from Company personnel with responsibility for developing agent training materials for the Company's producer training.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, procedures for agent communications appear appropriate and reasonable.

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Recommendations: None.

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

No work performed. The Company does not do mass marketing.

#### IV. PRODUCER LICENSING

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

**Standard IV-1. Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.**

*Objective:* The Standard addresses licensing of the independent agencies and appointment of the producers and whether such licenses and appointments agree with the Division's records. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of Standard IV-1 and Standard IV-4:

- Encompass specializes in personal insurance, selling exclusively through independent agencies and does not maintain an agency system.
- Encompass had contracts with 179 agencies in 2015.
- The Company's sales distribution in Massachusetts is through independent agencies and producers through the agencies.
- Encompass had appointments with 677 licensed producers (both resident and non-resident) in 2015 through the agencies.
- Producers are responsible for securing and renewing their Massachusetts state insurance licenses.
- In 2015, Encompass included a message when logging into the Encompass quoting and servicing system that by submitting a request for a quote or an application to Encompass, the individual is certifying that all activities pertaining to such transactions for which the state requires an insurance producer license have been performed by an individual properly licensed by the state.
- Encompass requires all licensed employees and producers who have a user ID to issue new business and process endorsements to complete the Personal History Certification and the Fair Credit Reporting Act forms which must be signed and dated within the last 60 days.
- The Sales Support Specialist runs a background check for the producer.
- The result of the background check is reviewed. If the result is "PASS", the Sales Support Specialist will send the forms, along with the individuals' license, to the licensing department at Allstate. If the result is "REVIEW", the details are sent to the Regional Sales Manager for further review and direction.
- The Licensing Center of Expertise ("COE") at Allstate Insurance Company verifies the producer licensing information from the NAIC's National Insurance Producer Registry – Producer Database. Before a producer is determined to be eligible for appointment, a licensing representative in the COE verifies that the license is active and for the correct lines of authority for the carrier to which the appointment will be made.
- The licensing representative will add the information into the Licensing database (SAP) using demographic and licensing information provided from the Sales Support Specialist. Encompass appointments will be sent to the state electronically through SIRCON.
- After appointment, the producer's license is monitored each time it expires to ensure it has been renewed properly. If the license is not renewed, the producer is put on notice that their appointment will be terminated and that they cannot represent Allstate or any affiliates in any way.
- Encompass does not offer incentives or motivational awards/recognitions, or any other remuneration given or available to MA producers.

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Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included the agency contracting and producer appointment process. In addition to reviewing 63 producers for valid licenses and appointments to Encompass, INS selected 5 new business private passenger automobile policies and 5 new business property policies issued during the examination period, to determine whether independent agencies were licensed according to M.G.L. c. 175, § 162I and to determine whether the producer was properly appointed according to M.G.L. c. 175, § 162S. INS also reviewed the independent agency to ensure that no additional incentives were offered the agencies or producers.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's independent agencies were properly licensed and agency producers were properly licensed and appointed at the date of sale.

Recommendations: None.

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

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

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included producer licenses and appointments and continuing education. M.G.L. c. 175, § 177E states producers must maintain continuing education requirements to maintain a valid license. INS also interviewed individuals with responsibility for independent agency contracting.

Transaction Testing Results:

Findings: None.

Observations: Producers are solely responsible for monitoring and maintaining compliance with the Division's producer continuing education requirements.

Recommendations: None.

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

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

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

- The Encompass Sales Support Specialist submits an Encompass Change Form to terminate the producer to the licensing department at Allstate Insurance. If only a producer is terminated, and not the agency, the request is sent immediately.
- The licensing representative will start the termination in SAP by sending a letter to the individual stating that their Encompass appointments will be terminated in 15 days from the date of the letter. After the 15 days, the Licensing Department will send the termination of the appointments to the state through SIRCON and indicate "Terminate" in the record in SAP.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included the producer appointment/termination process. INS also interviewed individuals with responsibility for independent agency contracting and termination processing. INS selected 63 individual producer appointments and terminations from the Company's data and compared that to in the Division's OPRA system. Finally, INS reviewed evidence that notices to producers and the Division complied with applicable statutory requirements and Company policy. In addition, the Company provided a list of five (5) agencies that were terminated in 2015.

Transaction Testing Results:

Findings: INS reviewed the standard contract for independent agencies and said contract stated, "This Agreement may be terminated by you or us upon written notice of intention to terminate directed to the other party at least 90 days [emphasis added] prior to the termination date."

The Company is in violation of M.G.L. c. 175, § 163 by having their Agency Agreement reflect 90 days notice in advance of the termination, (except in the case of "for cause" terminations), instead of the required 180 days notice in advance of the termination.

All the terminations that occurred in 2015 complied with the law.

Observations: For the appointment terminations tested, the Company did properly notify the producers about terminations, if applicable, and the Division through the OPRA system, in compliance with statutory requirements. However, contract language specified a lesser requirement.

Required Actions: The Company shall revise their Agency Agreement to reflect 180 days in advance of the termination, except in the case of "for cause" terminations, as required by M.G.L. c. 175, § 163.

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

Objective: The Standard addresses the Company's policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders. 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 reviewed documents from Company personnel whose responsibility included the producer appointment/termination process. In conjunction with the testing of 5 private passenger automobile policies and 5 property policies issued during the examination period where a producer was involved, INS tested 63 individual producer appointments/terminations. INS reviewed documents for any evidence of unfair discrimination against policyholders resulting from the Company's producer appointment and termination policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: INS reviewed documents from Company personnel whose responsibility included the producer appointment/termination process. INS also interviewed individuals with responsibility for independent agent contracting and terminations. INS selected 9 appointment terminations during the examination period and reviewed the reasons for each appointment termination. INS also inquired about any independent agency or producer contract that was terminated "for cause" during the examination period.

Transaction Testing Results:

Findings: None.

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

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Recommendations: None.

<b>Standard IV-6. Producer account balances are in accordance with the producer's contract with the insurer.</b>
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No work performed.

The Company direct bills premium, and producer advances are not provided. Thus, excessive debit account balances are not an issue. See Appendix A for applicable statutes, regulations and bulletins.

## POLICYHOLDER SERVICE

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

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

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

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

### Automobile

- The Company's billing frequency includes payment in full at inception. If paid in full a 10% discount will be applied to the policy. Other options are ten monthly installments for regular invoicing, with a down payment of 20% on the first installment, 9% on the next eight installments and the remaining installment of 8%. There is also an option of an EFT bill plan. Payments are accepted using a check, electronic funds transfer, or check via the phone or the internet. New Business invoices are sent upon posting of down-payment, policy issuance or next appropriate date within the equity billing cycle.
- For billed installments, the initial bill is sent approximately 23 days prior to the due date. There is a 6-day grace period for mailed-in payments. If not paid within grace period, a Notice of Cancellation for Non-Payment of premium will be issued. This is sent via Certificate of Mailing List. The Notice of Cancellation gives 25 days between issuance and effective date, plus a 7-day grace period for payments to post. Once the policy is canceled, a notice is sent to the consumer.

### Property

- The Company has a 12 equal installments bill plan for regular invoicing, and the customer has the option to pay more than the minimum due. The first invoice is due on policy effective date and the monthly due date is typically the same day of the month as the policy effective date.
- When a New Business policy is issued the system will let the agent know if a down payment is required. If a down payment is required and collected it will be applied toward the balance and 1<sup>st</sup> invoice will issue approximately 20 days prior to the next monthly due date and will divide the policy balance equally among the remaining installments. If no down payment is required, the invoice will issue 20 days prior to the next monthly due date and divide the full policy premium between the remaining installments.
- Invoices are issued approximately 20 days prior to the next monthly due date. There is a 10-day grace period before next billing activity.

*Controls Reliance:* Controls tested through documentation and/or requests 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 policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing.



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Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard V-2. Policy issuance and insured-requested cancellations are timely.</b>
--

Objective: This Standard is concerned with whether the Company has procedures to ensure that policyholder cancellation requests are processed timely. Policy issuance testing is included in Standard VI-6. Return of premium testing is included in Standard V-7. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy is to process insured-requested policy cancellations and applicable premium refunds in a timely manner. For Auto approximately 95% of New Business, Endorsements, and Cancellations are processed by the agent.
- For Auto policies the Company's procedure is to issue a policy or process endorsements within 5-7 days of receipt. They process cancellations within 3-5 days.
- The Company refunds unearned premium to policyholders on a pro-rata or short rate basis, pursuant to statutory and regulatory guidelines.
- Automobile policyholders may cancel their policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service, or evidence that they have moved out of Massachusetts to the agent.

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 policyholder service and tested 25 private passenger automobile and motorcycle insured-requested cancellations and 25 property policies from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Most insureds contact their agents directly with questions and change requests that require processing. The Company receives a small volume of email inquiries and limited correspondence with billing payments from customers to which the Quincy office responds. Items such as, an address change may be processed by Quincy due to billing timing. Agents are copied on all responses directly from the Quincy office for total account handling. More complex inquiries may be referred to the agent for handling, such as coverage changes.

*Controls Reliance:* Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* INS discussed procedures with Company personnel and reviewed correspondence in conjunction with underwriting, rating and policyholder service standards. Additionally, INS obtained documentation showing customer service correspondence in conjunction with new and renewal business and claims testing.

*Transaction Testing Results:*

*Findings:* None.

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

*Recommendations:* None.

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

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

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

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

Standard VI-8. See Appendix A for applicable statutes, regulations and bulletins.

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

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

*Controls Assessment:*

- A series of questions are answered at 120 days and there are multiple attempts to reach the insured.
- At 120 days from the date claim payment was made, a report is produced. Also, there is an additional report that between 120 and 160 days if the check remains unpaid, it will appear on a separate claim tracking report. A letter is then sent to the claimant if they are unsuccessful reaching the payee by phone. Checks in the amount of \$25 or more appear on the reports. The list is passed out to a specific group that begins an investigation. There are a set of scripts for use by the staff as “talking points” when contacting the individuals. Management becomes involved after the issuance of the 160 day report at the 170 day mark. The status would be updated to a stop pay for re-issue or the payee could be changed at the direction of the customer. There is also a status called “hold” that indicates a claim may be withdrawn. The final option is to mark the check for escheatment.
- If the Claims contact can determine there is a delay in repairs, those are stop paid and reissued to the appropriate parties. If there is no dispute or the customer does not contact the company back, the check will be allowed to escheat.
- The Regional Claim Manager gets involved at 170 days to make a final determination.

Stale dated checks expire at 180 days. For financial system known as ACT, it is programmed to automatically escheat at 180 days.

*Controls Reliance:* Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

*Transaction Testing Procedure:* INS discussed the Company’s procedures for locating missing policyholders and claimants and escheating funds.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* The Company appears to have processes for locating missing policyholders and claimants and appears to make efforts to locate such individuals.

*Recommendations:* None.

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

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

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

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

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

- The Company's claims personnel and independent agents have access to policyholders' claims history and paid loss information.
- The Company's policy is to provide a policyholder with his or her claims history and paid loss information upon request.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

## UNDERWRITING AND RATING

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

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- Collaborative Edge is the system for private passenger automobile and motorcycle applications and Express is the system for property. Applications can be taken on the phone or submitted electronically. The Company's underwriting and policy administration systems are used for quoting and rating policy applications.
- Encompass in Massachusetts exclusively sells to consumers through independent agents. The Company's independent agents electronically submit new business and endorsement information.
- Personal lines rates are filed with the Division and approved prior to use. All approved rates are loaded in the Company's underwriting and policy administration systems and are tested prior to use.
- The Company's policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents and ensures that at-fault drivers are appropriately surcharged for such accidents. Surcharged drivers are notified of the right to appeal the surcharge. The Company identifies vacated surcharges and completes processing for those transactions.
- Property and private passenger automobile and motorcycle rates are based on the Company's own loss experience data and the Company's competitive analysis of market rates. The Company uses industry standard motorcycle rating symbols to determine the premiums for optional collision and comprehensive coverages.
- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules of Operation.

*Controls Reliance:* Controls tested through documentation and/or requests 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 10 private passenger automobile policies, and 10 property policies issued or renewed during the examination period, to test rate classifications and underlying policy information. From these test selections, INS selected 10 private passenger automobile and 10 property policies and verified that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate.

*Transaction Testing Results:*

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Findings: None

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

Recommendations: None.

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

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

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system's controls are designed to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines

Controls Reliance: Controls tested through documentation and/or requests 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 process. INS selected 10 private passenger automobile and 10 property policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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- The Company has procedures for paying commissions to agents in accordance with written contracts.
- The Company's agent contracts, policies and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS interviewed individuals with responsibility for agent licensing, agent appointment, and agent compensation. In connection with the review of agent contracts, INS inspected new business materials, advertising materials, agent training materials and manuals for indications of rebating, commission cutting or improper inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses a modified version of the Automobile Insurance Bureau of Massachusetts ("AIB") Private Passenger Automobile Form, which has been approved by the Division. Approved forms and endorsements are required to be used when providing quotes to customers.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures

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Transaction Testing Procedure: INS interviewed Company personnel with responsibility for the underwriting process. INS selected 10 private passenger automobile and motorcycle policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures. 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 process. INS selected 10 private passenger automobile and 10 property policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely.

Recommendations: None.

<b><u>Standard VI-7. Rejections and declinations are not unfairly discriminatory.</u></b>
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Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices. See Appendix A for applicable statutes, regulations and bulletins.



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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- The Company uses automated underwriting guidelines designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis. The automated application process will not allow completion otherwise.
- If a consumer or agent completes the automated private passenger automobile or motorcycle application process, the Company does not decline or reject the applicant.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: INS also interviewed Company personnel with responsibility for the underwriting process.

Transaction Testing Results:

Findings: None.

Observations: The examiners saw no evidence of rejections or declinations. The Company has controls in place to assure appropriate acceptance and rejection of risks on a consistent and fair basis, and during the examination the examiners did not uncover any evidence of unfair discrimination in rejections or declinations.

Recommendations: None.

<b>Standard VI-8. Cancellation/non-renewal, discontinuance and declination notices comply with policy provisions, state laws and regulated entity guidelines.</b>
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Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. Declination procedures are reviewed in Standard VI-7. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company-initiated cancellations of private passenger automobile and property policies for underwriting reasons require a written notice of cancellation with the specific reason for the cancellation, which is sent to the policyholder at least 25 days (includes mailing time) prior to the cancellation effective date.
- Company cancellations for non-payment of premium for auto are provided at least 25 days (includes mailing time) prior to the cancellation effective date. For property policies it is 29 days (includes mailing time).
- Written non-renewal notices for unacceptable risks for auto are provided to policyholders at least 50 days (includes mail time) prior to the non-renewal effective date. For property policies it is 45 days in advance (plus mail time).

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

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Transaction Testing Procedure: INS interviewed Company personnel with responsibility for the underwriting process. INS selected 25 private passenger automobile and 25 company-initiated cancellations for testing. In addition, all transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

*Findings:* The examiners found that the Property Notice of Nonrenewal of Insurance did not alert the policyholder who to contact in the event they want to appeal the action, or in the cases where the action is the result of a “recent property inspection”, who performed said inspection and how to get a copy of the inspection report to ensure accuracy. The Property Notice of Nonrenewal to the policyholder merely states “You should contact your agent concerning coverage through another insurer or your eligibility for coverage through the Massachusetts Property Insurance Underwriting Association.”

*Observations:* Based upon testing the Company provided timely and adequate notice to policyholders for company-initiated cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons were reasonable and in compliance with statutory and regulatory requirements.

Recommendation: The Company should add to this Notice, appropriate language addressing the above finding.

<b>Standard VI-9. Rescissions are not made for non-material misrepresentation.</b>
--

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

Controls Assessment: The following controls were noted in review of this Standard: Company Underwriting Management told the examiners that the Company does not rescind policies. The examiners saw no evidence of rescinded policies.

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

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

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

- For Massachusetts Property, Encompass has trailing document requirements in place to audit the application of agency-applied credits such as the Central Station alarm discount. See Standard VI-1 for testing of premium rating. See Appendix A for applicable statutes, regulations and bulletins.
- For Massachusetts Auto, agents retain evidence in their files for New Business discounts and are subject to inspection by the Company. For Auto renewals, all relevant discounts are verified by Company staff in Quincy through a series of extracts to ensure that discounts are applied appropriately.
- In both instances, if sufficient support is not confirmed via a system review or updated by the agent, the discount is removed from the policy.

Controls Reliance: Controls tested through documentation and/or requests appear to be sufficiently reliable

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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 10 private passenger automobile policies, and 10 property policies issued or renewed during the examination period, to test rate classifications and underlying policy information, which included the process used to apply credits, debits and deviations.

Transaction Testing Results:

Findings: None

Observations: Based upon testing, credits, debits and deviations are consistently applied on a non-discriminatory basis by the company.

Recommendations: None.

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

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

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

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

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

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

**Standard VI-14 Verification of experience modification factors.**

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

**Standard VI-15 Verification of loss reporting.**

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

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

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

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

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

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

- Company policy and practice prohibits unfair discrimination in underwriting and rating in accordance with statutory requirements.
- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- The Company uses automated underwriting guidelines designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- On the 1<sup>st</sup> day of each month, auto new business processing activity begins for policies which are effective two months out, by accumulating merit rating information and the most current rating variables. For property policies new claim information is only updated to the policy record during the pre-renewal process, in anticipation of the upcoming renewal term. Property policies are issued 45 days prior to the renewal effective date and only include new claim information received before the renewal policy is generated.

*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 process. INS selected 10 private passenger automobile and 10 property policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage. INS also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon testing, the Company is using underwriting, rating and classification guidelines based on adequate information developed at or near inception of coverage.

*Recommendations:* None.

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

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

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

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

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

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

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

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

*Controls Reliance:* Controls tested through documentation and/or requests 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 process. INS selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

***Transaction Testing Results:***

*Findings:* None.

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

*Recommendations:* None.

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

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

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or agent shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.

*Controls Reliance:* Controls tested through documentation and/or requests 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 process. INS selected 10 private passenger automobile and 10 property policies issued or renewed during the examination period to determine whether any underwriting practices appeared collusive or anti-competitive.

*Transaction Testing Results:*

*Findings:* None.

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

*Recommendations:* None.

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

No work performed. This Standard is not covered in the scope of examination as the Company does not offer mass merchandising plans.

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

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

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

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

**Standard VI-25. All policies are correctly coded.**

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

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

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that certain coding elements reported by the agents are correct and current.
- The Company has a process to correct data coding errors and to make subsequent changes, as needed.
- The Company has policies and procedures to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB and CAR.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.

*Controls Reliance:* Controls tested through documentation and/or requests 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 process and the statistical reporting process. INS selected 10 private passenger automobile and 10 property policies issued or renewed during the examination period to test data coding for selected policy determinants.

*Transaction Testing Results:*

*Findings:* None.

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

*Recommendations:* None.

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

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

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

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- Company policy requires that the underwriting files support underwriting and rating decisions.
- The Company's agents are responsible for completing and retaining applications for new business and obtaining information needed to properly underwrite and rate the policies.
- Independent agency relationships are managed by the Company's New England Regional Sales Manager, who oversees several Account Sales Representatives. The Account Sales Representatives regularly visit agencies to provide guidance and training on new products, sales assistance and loss ratio improvement.
- Application process is electronic and has mandatory input fields to ensure necessary rating and underwriting information is provided. Agents are expected to complete necessary information, secure and retain applicable documentation, including signed applications and forms when applicable, and evidence to substantiate policy discounts.

Controls Reliance: Controls tested through documentation and/or requests 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 process. INS selected 5 private passenger automobile and 5 property policies issued or renewed during the examination period to test for properly completed new business applications and adequate underwriting documentation. INS also sought evidence of complaints related to unusual underwriting decisions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.



## V. CLAIMS

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

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

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

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

- Customers can either contact their agent or call 800-588-7400 and select the pertinent option to report new losses.
- Encompass uses Third Party Vendors to capture claim detail and the claim is then sent to the Company's regional claim offices for handling.
- The claims handling employees are organized in teams with a supervisory structure to ensure that claims settlement authorities and Company procedures are followed.
- There are four claim service leaders that manage the adjusting team. One leader manages cases represented and litigated. Two leaders handle liability with no injury, liability with injury but no representation and no liability claims, and one leads the auto field team. There are two team leads; one oversees processing (assist adjusters in getting information for claim and process based on the adjuster authority) and the other oversees operations (compliance oversight such as duplicate pays).
- The Company's claim system provides end-to-end processing including full financial processing, claims activities, notes and a claims history. The system includes electronic document storage and retrieval capabilities.
- Homeowner claims are handled by adjusters located in the Glens Falls, New York Regional Claims Office. The type of structure is two inside supervisors; there are no field staff for Massachusetts; however, all claims are handled by inside staff using independent adjusters.
- Catastrophe claims are located in Irving Texas.
- Personal Injury Protection (PIP) and MedPay claims are located in Bridgewater NJ.
- Auto total theft and total fire claims are located in the Atlanta Regional Claims Office.
- Subrogation property and recovery under homeowners' claims are located in Roanoke, VA. Auto subrogation is handled out of Sacramento, CA.
- Claims adjusters are to contact the insured within 24 hours and claimants within 72 hours.
- Liability claims must be completed within 30 days.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise.
- The Company requires that at-fault accident drivers receive notices of their at-fault accident surcharges and their right to appeal these determinations. Surcharges appealed and vacated by the Division's Board of Appeal are to be reversed timely by the Company. The Company does not report at-fault accident determinations to consumer reporting agencies.
- Company policy is to comply with CAR's SIU performance standards. Claim adjusters are provided training regarding SIU red flags and make referrals to SIU as needed. Automobile theft claims are reported through the Insurance Services Office to the National Insurance Crime Bureau. The SIU is responsible for coordinating with the IFB, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution.
- The Company does searches of the Safe Driver Insurance Plan (SDIP) for any applicants and

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policyholders that might have points against their driver license.

- The Company is subject to periodic loss data audits by the Commonwealth Auto Reinsurers (CAR) for compliance with statutes and CAR Rules of Operation. Daily claim statistical data is accumulated through the claim system, and summary data is provided monthly by the Company to CAR. Any claim statistical errors exceeding standard CAR tolerance levels must be corrected.

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 its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard VII-2. Timely investigations are conducted.</b>
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Objective: The Standard addresses the timeliness and completeness of the Company's claim investigations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

Observations: INS noted each of the tested claims was timely reported and investigated according to the Company's policies procedures, and statutory requirements.

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Recommendations: None.

<b>Standard VII-3. Claims are resolved in a timely manner.</b>
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Objective: The Standard addresses the timeliness of the Company's claim settlements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS tested each selected claim noting whether the Company timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: INS noted that for each of the tested claims, the Company timely responded to claim correspondence. Based upon testing, it appears that the Company's processes for timely responding

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to claims correspondence are functioning in accordance with its policies, procedures and statutory requirements. The Company also addresses negative comments received on written post-claim payment surveys, and the comments are summarized for management reporting.

Recommendations: None.

<b>Standard VII-5. Claim files are adequately documented.</b>
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Objective: The Standard addresses the adequacy of information maintained in the Company's claim files. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPPA), rules and regulations.</b>
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Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee. 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 interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS reviewed the file for each selected claim, and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, INS reviewed the Company's complaint log for complaints that were claim-related and tested 5 claim-related complaints.

Transaction Testing Results:

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Findings: None.

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

Recommendations: None.

<b>Standard VII-7. Regulated entity claim forms are appropriate for the type of product.</b>
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Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard VII-8. Claim files are reserved in accordance with the regulated entity's established procedures.</b>
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Objective: The Standard addresses the Company's process to establish and monitor claim reserves for reported losses. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS reviewed the file for each selected claim, and noted whether claim reserves were

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evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.</b>
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Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: For one denied claim the company did not send out a proper denial letter to the policyholder. The content of the letter was blank. In another homeowner claim, the "form fields" were not completed.

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

Recommendations: The Company should review all letters before they are mailed to policyholders to ensure that incomplete documents are not sent.

<b>Standard VII-10. Cancelled benefit checks and drafts reflect appropriate claim handling practices.</b>
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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.

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Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS reviewed procedures regarding the use of claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check.

Transaction Testing Results:

Findings: None.

Observations: The Company requires a signed release form for the agreed upon settlement prior to issuing a check. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims. INS reviewed the file for each selected claim, and noted whether reservation of rights was warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.



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Transaction Testing Procedure: INS interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims for testing. INS reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard VII-14. Loss statistical coding is complete and accurate.</b>
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Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy is to report complete and accurate loss data timely to appropriate rating bureaus.
- The Company reports private passenger automobile loss data to CAR in a format required by CAR. The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation. Daily claim statistical data is accumulated through the claim system, and summary data is provided monthly by the Company to CAR. Any claim statistical errors exceeding standard CAR tolerance levels must be corrected.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company has processes to correct loss data coding errors and to make subsequent changes, as needed.

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

Transaction Testing Procedure: INS interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. INS selected 50 paid private passenger automobile claims, 50 denied private passenger automobile claims, 50 closed-without-payment private passenger automobile claims, 50 paid property claims, 50 denied property and 50 closed-without-payment property claims for testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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## **SUMMARY**

Based upon the procedures performed in this examination, INS has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the 2015 NAIC Market Regulation Handbooks, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. INS has provided Recommendations, Observations and Required Actions to address standards in Company Operations/Management, Complaints, Producer Licensing, Underwriting and Rating, and Claims.

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**ACKNOWLEDGEMENT**

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

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

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



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