

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

Report on the Comprehensive Market Conduct Examination of
Hospitality Mutual Insurance Company

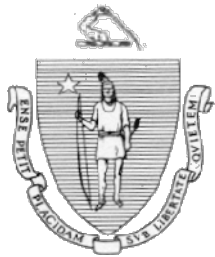
Southborough, MA

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

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

August 16, 2022

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

Dear Commissioner Anderson:

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

HOSPITALITY MUTUAL INSURANCE COMPANY

at their home offices located at:

106 Southville Road
Southborough, MA 01772

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

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

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2018 NAIC Market Regulation Handbook* (“the Handbook”), the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations, and bulletins, and selected federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division’s separate financial examination of the Company. For those objectives, INS and the market conduct examination staff used procedures performed by the Division’s financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed.

The Division determined the key objectives of this examination with emphasis on the following areas:

- I. Company Operations/Management
- II. Complaint Handling
- III. Marketing and Sales
- IV. Producer Licensing
- V. Policyholder Services
- VI. Underwriting and Rating
- VII. 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. The Handbook approach detects deficiencies through transaction testing. At the same time, the internal control assessment provides an understanding of the critical controls that management uses to operate their business and to meet key business objectives, including complying with applicable laws and regulations related to market conduct activities.

There are three significant steps in internal control assessment: (a) identify controls; (b) determine whether the control as designed can successfully mitigate anticipated risks; and (c) verify that the control is functioning as intended (i.e., review or testing of the controls). In addition, the examiners considered the effectiveness of the internal controls 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
HOSPITALITY MUTUAL INSURANCE COMPANY

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

EXECUTIVE SUMMARY

This summary provides a high-level overview of the examination results and highlights areas where examiners included general recommendations or noted the need for required actions. The body of the report details the scope of the examination and the examination approach. The summary also discusses the 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 responsibilities. The Massachusetts laws, regulations, and bulletins cited in this report are available for viewing on the Division's website at www.mass.gov/doi.

The examination resulted in one required action in complaints and three findings in underwriting and rating. In addition, there are recommendations regarding company operations/management, underwriting and rating, and claims. There were no recommendations for producer licensing and policyholder services.

Required actions and findings noted in this examination are as follows:

II. COMPLAINTS

STANDARD II-1

Findings: As the Company does not have a complaint register, the Company is in violation of M.G.L. c. 176D, §3(10).

Observations: The Company does not have a complaint register.

Required Actions: The Company must develop complaint handling procedures and implement a process to start tracking complaints on the Company's complaint register to ensure compliance with M.G.L. c. 176D, §3(10).

Subsequent Company Action: The Company has implemented a process for maintaining and tracking complaints. The process includes a method of monitoring complaint trends related to bad faith claims and lawsuits. The Company will provide a copy of the complaint log and the procedures related to tracking complaints to the Division for the 2021 calendar year on or before July 1, 2022. The Company will provide a copy of the complaint log and the procedures related to tracking complaints to the Division for the 2021 calendar year on or before August 1, 2022.

STANDARD II-2

Findings: As the Company does not have any complaint handling policy and procedures in place and did not communicate such procedures to policyholders, the Company is in violation of M.G.L. c. 176D, §3(10).

Observations: The Company does not have complaint policy and procedures in place and does not communicate such procedures to policyholders.

Required Actions: The Company must develop complaint handling procedures, implement a process to start tracking complaints on the Company's complaint register and communicate such procedures to policyholders to ensure compliance with M.G.L. c. 176D, §3(10).

Subsequent Company Action: The Company has implemented a process for maintaining and tracking

complaints. The company should implement complaint handling policies and communicate those with the policyholders. The Company will provide a copy of the procedures related to tracking complaints and the procedures for communicating the complaint procedures to policyholders to the Division on or before August 1, 2022.

VI. UNDERWRITING AND RATING

STANDARD VI-1

Finding #1: One liquor liability policy was eligible to be rated in the “Preferred” Underwriting tier; however, the policy was incorrectly rated in the “Standard” tier due to an underwriting error when binding coverage during the 2018-2019 and 2019-2020 policy periods. The rating error is a violation of M.G.L. c. 175A, § 6(e).

Subsequent Company Actions: The Company agreed with the findings and endorsed the policy to correct the tier to Preferred. The 2018-2019 policy period return of premium was \$308.00 and \$388.00 for the 2019-2020 policy period. Accordingly, the Company applied the credit of \$696 to the 2019-2020 policy period.

Finding #2: The Company failed to include a credit for alcohol training as required in the policy rating application on one liquor liability policy. The rating error is a violation of M.G.L. c. 175A, § 6(e).

Subsequent Company Actions: The Company agreed with the finding and endorsed the 2018-2019 and the 2019-2020 policies to apply the credit.

The Company applied the 2019-2020 credit of \$310.00 to the open balance.

The Company applied the \$286.00 credit for the 2018-2019 policy period to the \$87.95 balance leaving a return premium to the insured of \$198.05. Accordingly, the Company sent the insured a check of \$198.05 on August 13, 2019.

Finding #3: The examiners asked about the Company’s practices related to “No loss credit” endorsements on all eligible policies. While researching a response, the Company self-identified an issue with the application of the credit. The Company’s failure to appropriately apply the “No loss credit” endorsement was a violation of M.G.L. c. 175A, § 6(e).

Subsequent Company Action: The Company identified 236 active policyholders and 492 expired policies that did not receive the “no loss credit.” The Company refunded \$371,343 to current and former policyholders. In addition, 102 current in-force policies had not received the credit, and the Company applied the endorsement credit, resulting in a \$75,725 reduction of premium. In addition to providing refunds and account credits, the Company immediately changed the renewal underwriting procedures to prevent continuing exposure. The Company provided proof of payments to the Division and INS on November 15, 2019.

Observation #1: During the examination period, there was no consistency in the documentation of credits and debits applied to the policies or notes from the underwriters to justify tier placements or other decisions.

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HOSPITALITY MUTUAL INSURANCE COMPANY

Subsequent Company Actions: In July 2019, the Company created a document that all underwriters are required to use to track this information to provide consistency and support underwriting decisions.

Observation #2: INS could not confirm that the ISO rating algorithm was working correctly for property and general liability policies as the Company could not provide a worksheet to verify the rating. However, INS could review and confirm that the credits and debits were applied appropriately.

Subsequent Company Action: The Company has contracted for a new rating system with an anticipated implementation date of early 2020 that will allow the Company to produce a rating worksheet describing premium development.

COMPANY BACKGROUND

The HMIC originated in 1985, with the enactment of Chapter 223 of the General Laws of the Commonwealth of Massachusetts (“the Act”) to provide for the establishment of the Liquor Liability Joint Underwriting Association (“the Association”). The Association guaranteed the continued availability of liquor liability insurance to any licensee or any person lawfully engaged in serving alcoholic beverages as an incident of its business. The Commissioner of Insurance (“the Commissioner”) approved the Association’s plan of operation on December 16, 1985, and the Association commenced operations on January 1, 1986. In August 2002, Section 13 of the Act was amended by Chapter 211, which removed the word “temporary” in Section 1, and thereby eliminated periodic reviews to extend operations and allowed the Association to operate indefinitely.

On June 20, 2008, sections 1 to 12, inclusive of Chapter 223, were repealed, and Chapter 175 was amended, which converted the Association to a mutual insurance company, known as Hospitality Mutual Insurance Company. Under the amendment, HMIC may provide any line of liability insurance coverage to any licensee or any person lawfully engaged in serving alcoholic beverages as an incident of its business. In addition, on January 25, 2010, HMIC received permission from the Division to write property/casualty hired and non-owned automobile coverage.

On February 23, 2011, HMIC acquired all of the issued and outstanding common stock shares of Eastern Casualty Insurance Company (“Eastern”). As a result, Eastern was renamed Hospitality Insurance Company (“HIC”). HIC is a wholly owned subsidiary of HMIC. Before 2016, HIC was domiciled in Massachusetts, but effective December 21, 2016, HIC re-domesticated to the State of Connecticut.

HMIC and HIC currently provide coverage for liquor liability, general liability, excess liability, property, and boiler and machinery to businesses providing hospitality services in Massachusetts, Rhode Island, New Hampshire, Vermont, Pennsylvania, Connecticut, and North Carolina.

HMIC had \$66.8 million in admitted assets and \$22.4 million in capital and surplus as of December 31, 2018.

I. COMPANY OPERATIONS/MANAGEMENT

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

Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.
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Objective: This Standard addresses the audit function and its responsibilities. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company does not have a formal internal audit function staff.
- The Company relies on the finance department to develop policies, procedures and controls to ensure proper separation of duties and proper sign-offs.
- Crowe LLP does independent external audits as required. For example, if a financial examination flags concerns related to a missing control, procedures would be drafted and assessed during the review process. The external audit focuses on financial statement reporting accuracy.
- In addition, underwriting conducts internal file review audits, and the Sr Vice President of Claims reviews claim files.

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

Transaction Testing Procedure: INS reviewed the underwriting audits the Company provided for review. INS also interviewed the Company's senior managers, who described the audit process. Twenty-four (24) underwriting audits were selected and reviewed.

Transaction Testing Results:

Findings: None.

Observations: The audits provided showed that the underwriting management had a process in place to review underwriting files. Management's feedback provided the underwriters with guidance on improving the documenting of decisions and files. It is important to note that the Company has contracted for a new computer system that includes more controls to ensure more uniformity in the underwriting decision-making process and documentation.

Recommendations: In addition to the underwriting audits, the Company should consider adding other internal audits beyond those for underwriting to include all facets of the organization, including, but not limited to, complaints and policyholder services. Also recommended are audits to ensure any vendors/contractors comply with their contractual requirements to the Company.

Subsequent Company Action: After the examination ended, the Company's Board of Directors approved a vendor review procedure. The review procedure will include vendor contract compliance audits and provide the audit reports to the Board of Directors.

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

No work was performed for this Standard. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

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

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

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

- The business is predominantly liability coverage, so almost all claims are litigated. There are not many first-party claims since commercial property accounts for approximately 10% of total claims. The Company conducts investigations as needed.
- The adjusters also serve as fraud investigators for potentially fraudulent claims. The Company's position is that the best defense is a thorough investigation.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: Continue to modify the plan, as needed, with the addition of new lines of business and Company growth to reflect any additional threats.

Subsequent Company Action: The Company has promulgated a corporate anti-fraud plan reviewed annually by the Board of Directors and distributed annually to all employees.

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

No work was performed for this Standard. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

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

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

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

- The Company has no relationship with Managing General Agents.
- The Sr. Vice President of Claims is responsible for overseeing the vendor contracts.
- The Company provided a list of the vendors. The examiner reviewed the relevant contracts for each vendor.
- The examiners reviewed the agreement between the Company and Net Logic to manage and maintain the Company's computer hardware, software, networks, and telecommunications.

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

Transaction Testing Procedures: INS interviewed management about its use and monitoring of third-party entities assuming a business function.

Transaction Testing Results: INS reviewed Company policies and procedures to address and monitor the activities of contracted entities.

Findings: None.

Observations: The Net Logic contract has been in place since January 1, 2016, and is ongoing until canceled by either party. The arrangement appears to be thorough, addresses compliance as well as statutory requirements. Therefore, it is the opinion of INS that this agreement is adequate.

Recommendations: None.

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

Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-5

Controls Reliance: See Standard I-5

Transaction Testing Procedures: INS interviewed management about its use and monitoring of third-party entities assuming a business function.

Transaction Testing Results: INS reviewed Company policies and procedures to address and monitor the activities of contracted entities.

Findings: None.

Observations: The Company is adequately monitoring its vendors that assume a business function.

Recommendations: None.

Standard I-7. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.
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Objective: This Standard addresses the adequacy and accessibility of the Company's records. See Appendix A for applicable statutes, regulations and bulletins.

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

- The examiners interviewed Company personnel regarding their record retention policy.
- All policy records from inception, including policy documents, declaration pages, and correspondence, were verified to be stored electronically in the Company imaging system, Eclipse.
- Their systems vendor, Net Logic, regularly backs up the systems.

Controls Reliance: See Standard I-5

Transaction Testing Procedures: The examination evaluated record availability and completeness, and all records provided were adequate, accessible, consistent, and orderly.

Transaction Testing Results:

Findings: None.

Observations: The Company does not currently have a record retention policy in place. They indicated that they are in the process of developing one.

Recommendations: The examiners recommend the Company develops and implements a record retention policy to ensure compliance with state regulatory requirements.

Subsequent Company Action: The Company finalized a revised record retention policy and schedule that the Board of Directors approved. After implementing the new policy, the Company destroyed records following the enhanced process ensuring secure access and adherence to retention schedules.

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 they are authorized to write with the Division. See Appendix A for applicable statutes, regulations and bulletins.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None

Observations: The Company holds licenses for the appropriate lines of business.

Recommendations: None.

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

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

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

- The examiners tracked Company responses for cooperation and timeliness throughout the examination.
- The examiners sent the Company information requests and emails during the examination.
- The Company provided timely responses to all emails, inquiries, and information requests submitted by the examiners
- The Company participated in regularly scheduled calls during the examination.

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

Observations: The Company's level of cooperation and responsiveness to examiner requests was excellent. There were no concerns about Company responsiveness arising during the examination.

Recommendations: None.

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

Objective: This Standard addresses the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. Testing of compliance with adverse underwriting notice requirements is located in Underwriting and Rating Standard VI-7.

Controls Assessment: The examiners noted the following controls in conjunction with the review of this Standard and Standards I-11 through I-17:

- The Senior Vice President of Claims indicated that the privacy policy has evolved over several years.
- The Company conducts training to ensure personnel understands the nature of confidential information and what information the Company may disclose.
- Nondisclosure agreements with strong confidentiality provisions are required.
- Examiners noted a section on data protection and confidentiality of employee and client personal information in the Company's employee handbook.
- With the introduction of the new cybersecurity insurance, the Company is developing a model for ensuring privacy.

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

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

Transaction Testing Results:

Findings: None.

Observations: Although the Company has written policies and procedures, the documentation level during the examination period could be more robust. However, the Company was already moving to improve this area and informed INS that it is "currently drafting three additional policies concerning privacy protection":

- 1) A general, comprehensive cyber security policy for employees (Information Security Policy 6/14/19);
- 2) A formal record retention policy;

3) HMIC is also reexamining its draft Written Information Security Policy (“WISP”). The intent is to implement the final WISP with the additional privacy protection policies slated to accompany the existing HMIC Network Security Policy from Netlogic Computer Consulting, the Employee Handbook, and the Telecommuter Policy. Of the additional information provided, it appears that the strengthening of these policies and procedures will help strengthen their policies.

Recommendations: INS encourages the Company to complete these new procedures and implement them promptly.

Subsequent Company Action: The Company finalized the WISP and implemented company-wide training during the Spring of 2020. The Company anticipates conducting ongoing training.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon the documentation review and claim and file review, the Company’s privacy policies and procedures are adequate.

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None

Observations: Based upon the documentation reviewed, the Company's privacy policies and procedures are adequate.

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

Observations: The policy is adequate to protect nonpublic customer information based upon INS review of documentation and discussions with key personnel.

Recommendations: None.

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

The examiners did not review this standard as it does not apply to the line of business examined.

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 examiners noted the following controls:

- INS reviewed the complaint log developed in 2019.
- The Company did not have any complaints during the examination period.
- The Company does not have any written complaint procedures.
- The Company has a social media presence but has not had any complaints to date.
- The Company did have a process to capture bad faith claims and lawsuits.

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

Transaction Testing Procedure: INS interviewed the Chief Executive Officer, who indicated that if a complaint came in from the DOI, it would probably come to his office and be triaged accordingly.

Transaction Testing Results:

Required Actions: The Company must develop complaint handling procedures and implement a process to start tracking complaints on the Company's complaint register to ensure compliance with M.G.L. c. 176D, §3(10).

Findings: As the Company does not have a complaint register, the Company is in violation of M.G.L. c. 176D, §3(10).

Observations: The Company does not have complaint register.

In response to the Examiners' inquiry, the Company responded as follows:

"The Company has not had formal standards in place for responding to and resolving complaints. The Company implemented a complaint log in April 2019 and is currently in the process of developing response standards consistent with laws and regulations in Massachusetts and the other states in which it operates."

Recommendations: The Company must develop complaint handling procedures and implement a process to start tracking complaints on the Company's complaint log to ensure compliance with M.G.L. c. 176D §3(10).

Subsequent Company Action: The Company has implemented a process for maintaining and tracking complaints. The process includes a method of monitoring complaint trends related to bad faith claims and lawsuits. The Company will provide a copy of the complaint log and the procedures related to tracking complaints to the Division for the 2021 calendar year on or before July 1, 2022. The Company will provide a copy of the complaint log and the procedures related to tracking complaints to the Division for the 2021 calendar year on or before August 1, 2022.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: INS interviewed management and staff responsible for complaint handling and the complaint procedures.

Transaction Testing Results:

Findings: As the Company does not have any complaint handling procedures in place and did not communicate such procedures to policyholders, the Company is in violation of M.G.L. c. 176D, §3(10).

Observations: The Company does not have complaint procedures in place and does not communicate such procedures to policyholders.

In response to the Examiners' inquiry, the Company responded as follows:

"The Company has not had formal standards in place for responding to and resolving complaints. The Company implemented a complaint log in April 2019 and is currently in the process of developing response standards consistent with laws and regulations in Massachusetts and the other states in which it operates."

Recommendations: The Company has implemented a process for maintaining and tracking complaints. The company should implement complaint handling policies and communicate those with the policyholders. The Company will provide a copy of the procedures related to tracking complaints and the procedures for communicating the complaint procedures to policyholders to the Division on or before August 1, 2022. .

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

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

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

The objective of this Standard relates to complaint handling and the recommendations set forth in II-1.

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.

The objective of this Standard relates to complaint handling and the recommendations set forth in II-1.

III. MARKETING AND SALES

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

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

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

Controls Assessment: The examiners noted the following controls:

- The firm Leave it to Lindsey was utilized to draft marketing materials for the website and social media during the examination period.
- The Company does utilize brochures and issues many bulletins and marketing tips in addition to their social media presence.
- The Company developed the direct mail pieces internally.
- The Company has produced some direct marketing materials and may also co-issue some materials with brokers.
- The Company requires approval for any broker-generated materials.
- Massachusetts Restaurant Association is a marketing opportunity offering discounts to the members.

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

Transaction Testing Procedure: INS interviewed the Companies' senior staff involved with marketing, who described the marketing and sales approach.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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

Controls Assessment: The examiners noted the following controls:

- The Company produced a PowerPoint presentation outlining highlights of their products, services, and contact information.

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

Transaction Testing Procedure: INS interviewed the Company's senior staff involved with marketing who described the marketing and sales. In addition, INS reviewed the PowerPoint presentation.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard III-2

Controls Reliance: See Standard III-2.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

IV. PRODUCER LICENSING

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

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

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

The examiners did not perform testing as the Company does not appoint brokers.

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 the Company's appointment practices, including background checks and continuing education requirements. See Appendix A for applicable statutes, regulations, and bulletins.

The examiners did not perform testing as the Company does not appoint brokers.

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

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

Controls Assessment: The following controls were noted:

- INS interviewed the Sr. Vice President of Underwriting and Marketing on the procedures regarding termination of a broker.
- The law requires a six-month notification to agents, so they allow the same time frame for brokers. Broker cancellations are made for lack of business (only 1-2 policies) or where the loss ratio is prohibitive.
- If it is determined that the broker is not meeting production goals, they receive a warning letter/intent to cancel letter advising them of their lack of production. They are advised that they have six months to continue to do business with the Company. After the next six months, they are again reviewed. If production does not improve, they are sent a cancellation of contract letter, finalizing the cancellation.

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

Transaction Testing Procedure: INS reviewed the procedures for broker termination, and the information on the five (5) brokers terminated over the examination period. No issues were identified.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

The objective of this Standard relates to producer appointments and terminations and the observations set forth in IV-3.

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

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

The objective of this Standard relates to producer appointments and terminations and the observations set forth in IV-3.

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

The Company does not allow any agency billing or balances, so this standard does not apply.

V. POLICYHOLDER SERVICES

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

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

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

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

- Direct bills require a 20% deposit upfront and then seven months of installments. The installments are due 20 days from the billing date. If the Company does not receive the payment within 30 days of the due date, a non-pay cancellation notice will be issued. The insured is allowed to pay the unpaid amount within 25 days from the cancellation notice date. The policy will cancel if the Company does not receive the payment by the cancellation date.
- Consumers may pay annual premiums in advance.
- Accepted payments include e-check, credit card, or a manual check.
- Policies that automatically renew are sent out 60 days before the expiration and are due on the policy's effective date.

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

Transaction Testing Procedure: INS reviewed the Company's policies and procedures for providing billing and lapse notices. INS also interviewed the Chief Financial Officer and the Sr. Vice President Underwriting and Marketing, who described the Company's billing process and procedures.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has written policies and procedures for the processing of policyholder and contract holder transaction requests.
- The Company processes endorsements and insured requested cancellations within 15 days of receipt of complete information.
- The examiners tested the time frames for policy cancellation using a sample of canceled policies.
- The Company handles cancellation requests timely.

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

Transaction Testing Procedure: INS reviewed the Company's policies and procedures. INS also interviewed the CFO/SVP of Finance, who described the Company's practices for sending timely billing, lapse and cancellation notices.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's procedures for providing timely responses to customers. The Complaint Handling Section covers complaints while the Company's claim response practices are included in the Claims Section. See Appendix A for applicable statutes, regulations, and bulletins. Section

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

- Correspondence is received in the Southborough office, and Administration routes it to the correct business units for handling.
- When questions are received, the Company relies on managers to receive and direct the correspondence to the appropriate area for completion.

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

Transaction Testing Procedure: INS interviewed the Office Manager, who described the Company's practices.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

The examiners did not perform work for this Standard. The Company did not enter into any assumption reinsurance agreements during the examination period.

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

Objective: This Standard addresses procedure for processing changes to insurance accounts after policy issuance. Standard VI-6 addresses objectives for issuing policies while Standard V-1 tests billing transactions. Information on requirements for insured-requested cancellations appears in Standard V-2. Standard 7 addresses the testing procedures for the return of premium. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Eclipse system produces a report for the Senior Vice President of Underwriting at least weekly and typically every other day. The report allows management to review the timeliness of policies quoted, issued, canceled, and endorsements.
- The underwriting service standard for issuing endorsements and cancellations is 15 days.
- Endorsements and insured requested cancellations process within 15 days of receipt of complete information.
- All changes must be in writing, and any appropriate refunds go to the insured.
- Transaction requests were considered and responded to in a timely manner.
- INS reviewed policy transactions when reviewing the Company's files.
- There were no instances of delays noted by INS during their file reviews.

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

Transaction Testing Procedure: INS interviewed the Sr. Vice President of Underwriting, who described the Company's practices and procedures for processing transactions. There were no deficiencies or delays in the processing of communications.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, INS determined that the Company has policies and procedures in place to process customer correspondence for Claims and Underwriting timely and in a responsive manner. However, the Company does not have processes in place to handle general correspondence.

Recommendations: None.

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 comply with escheatment and reporting requirements. See Appendix A for applicable statutes, regulations, and bulletins.

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

When the billing department is alerted of an incorrect address, the billing department will first check with the underwriting department to make sure the underwriting system lists the correct address. For example, suppose the address listed in the billing and underwriting departments is the same address the policyholder provided when the policy was issued. In that case, the billing department will contact the agent to determine if there was an address change without notice to the Company. Next, the Company will verify the insured is still in business.

, the Company will verify that the insured is still in business.

- The Finance Department will check with underwriting to determine if they have an up-to-date address. They will also check the internet to see if the insured is out of business.
- When a credit balance or uncashed check remains unresolved for 180 days, a period deemed by management to be a reasonable period to be cashed, a stop-pay is placed on the check.
- At the 180-day point, these items will be reported on page 3, line 25 of the Annual Statement.
- As long as deemed prudent by management, additional attempts are made every 90 days to contact the unclaimed property recipient.
- It is a rare situation when the Company cannot locate a policyholder/employer.

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

Transaction Testing Procedure: INS reviewed the Company's policies and procedures for locating missing policyholders and beneficiaries. INS also interviewed the Financial Manager, who described the Company's practices to escheat unclaimed policy and the process for finding missing policyholders and contract-holders when checks remain uncashed.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the return of the correctly calculated unearned premium promptly for canceled policies. See Appendix A for applicable statutes, regulations and bulletins.

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

- Unearned premium calculations are part of an automated process in the Mutual Expert system.
- Refunds on canceled policies are generated automatically within Mutual Expert. The Chief Financial Officer will then issue refund checks in batches, sign the checks and give them to Sr. Accounts Administrator to compare the refund amount to the Accounts Receivable Ledger for accuracy. Then the refund check is mailed to the policyholder or the finance company.

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

Transaction Testing Procedure: INS reviewed the Company's premium refund guidelines and unearned premium calculation procedures.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard V-8. Reinstatement is applied consistently and in accordance with policy provisions.

Objective: This Standard addresses consistent reinstatement processing in compliance with policy provisions. See Appendix A for applicable statutes, regulations, and bulletins.

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

- Currently, non-pay cancellations receive 25 days' notice; however, this period may vary as the Company does not want a cancellation date on a weekend or a Monday. With the new system under development, the system will automatically issue cancellations within set parameters with no human intervention. The system will also process final cancellations automatically based on the due date.
- The Company is flexible with accepting payment after the cancellation date. Typically, they receive a call from the broker/insured before the due date indicating payment is coming. The Company will allow for mailing time so payment may be received after the cancellation date.

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

Transaction Testing Procedure: INS reviewed the Company's procedures for processing reinstatement requests. INS also interviewed the Vice President of Underwriting who described the company's policies and procedures regarding evaluating reinstatement requests.

Transaction Testing Results: INS reviewed ten (10) commercial insurance policy reinstatements during the examination period to ensure that the reinstatements were handled consistently and timely in accordance with the pertinent policy provisions.

Findings: None.

Observations: INS determined that the Company processed the reinstatements following the policy provisions based on the files tested. As indicated above, there currently is flexibility in the reinstatement process where the Company will accept payment after cancellation on a case-by-case basis. As a result, there is a concern that this process could cause inconsistent handling of reinstatements. However, The Company advised INS that the Company has automated the cancellation process in the new system, so the policy cancels if payment is not received by the due date. Thus, the system will ensure consistency in the cancellation and reinstatement process.

Recommendations: No recommendations based on the Company's assurances they are implementing a new system.

Subsequent Company Action: The Company implemented a new system on March 1, 2021, which includes automating reinstatement processes. The system will help ensure consistent handling of reinstatements.

VI. UNDERWRITING AND RATING

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

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

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

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

- The Company has written policies and procedures for processing new and renewal business.
- As statutory and regulatory requirements require, company policy prohibits unfair discrimination in applying premium discounts and general rating methodology.

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

Transaction Testing Procedure: INS interviewed Company personnel with responsibility for the underwriting and rating processes.

INS selected 25 each of liquor liability, general liability, property, and special events policies for review. Twenty (20) were new business, and five (5) were renewals. INS tested the sample for all policies to determine if the Company had attached the rate classifications and mandated forms. In addition, the review confirmed that the Company appropriately identified all included documents. For the 20 new business policies (property and general liability), INS reviewed the individual risk premium modification ("IRPM") credits and debits (when applicable) to determine there was sufficient documentation to support the credit/debit that was applied. In addition, INS confirmed the premium charged for the 25 special event policies was accurate and utilized the filed rate. In contrast, INS reviewed the 20 new liquor liability policies to determine if the premiums as charged used the filed rates and identified two errors.

Finding #1: Two liquor liability policies were rated incorrectly in violation of M.G.L. c. 175A, § 6(e).

One policy was eligible to be rated in the "Preferred" Underwriting tier; however, the policy was incorrectly rated in the "Standard" tier due to an underwriting error when binding coverage during the 2018-2019 and 2019-2020 policy periods. The rating error is a violation of M.G.L. c. 175A, § 6(e).

Subsequent Company Actions: The Company agreed with the findings and endorsed the policy to correct the tier to Preferred. The 2018-2019 policy period return of premium was \$308.00 and \$388.00 for the 2019-2020 policy period. Accordingly, the Company applied the credit of \$696 to the 2019-2020 policy period.

Finding #2: The Company failed to include a credit for alcohol training as required in the policy rating application on the second liquor liability policy. The rating error is a violation of M.G.L. c. 175A, § 6(e).

Subsequent Company Actions: The Company agreed with the finding and endorsed the 2018-2019 and the 2019-2020 policies to apply the credit.

The Company applied the 2019-2020 credit of \$310.00 to the open balance.

The Company applied the \$286.00 credit for the 2018-2019 policy period to the \$ 87.95 balance leaving a return premium to the insured of \$198.05. Accordingly, the Company sent the insured a check of \$198.05 on August 13, 2019.

Finding #3: The examiners asked about the Company's practices related to "No loss credit" endorsements on all eligible policies. While researching a response, the Company self-identified a potential issue with the application of the credit.

Subsequent Company Action: The Company identified 236 active policyholders and 492 expired policies that did not receive the "no loss credit." The Company refunded \$371,343 to current and former policyholders. In addition, 102 current in-force policies had not received the credit, and the Company applied the endorsement credit, resulting in a \$75,725 reduction of premium. In addition to providing refunds and account credits, the Company immediately changed the renewal underwriting procedures to prevent continuing exposure. The Company provided proof of payments to the Division and the INS Companies on November 15, 2019.

Observation #1: During the examination period, there was no consistency in the documentation of credits and debits applied to the policies or notes from the underwriters to justify tier placements or other decisions.

Subsequent Company Actions: In July 2019, the Company created a document that all underwriters are required to use to track this information to provide consistency and support underwriting decisions.

Observation #2: INS could not confirm that the ISO rating algorithm was working correctly for property and general liability policies as the Company could not provide a worksheet to verify the rating. However, INS could review and confirm that the credits and debits were applied appropriately.

Subsequent Company Action: The Company has contracted for a new rating system with an anticipated implementation date of early 2020 that will allow the Company to produce a rating worksheet describing premium development.

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

Objective: This Standard addresses mandated underwriting disclosures, as required under statutes, regulations, and Company policy. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company has written policies and procedures for processing new and renewal business.

- The Company's systems controls are designed to ensure that the mandated and Company required forms are attached to the policy.

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

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

Transactions Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination occurs regarding the rebating or inducement to purchase coverage via commission adjustments. See Appendix A for applicable statutes, regulations, and bulletins.

Controls Assessment:

- The Company prohibits illegal rebating, commission cutting, and inducements.
- The Company monitors the acceptance of premium payments and is responsible for establishing the premium amount payable.
- The process for policy issuance does not allow for the broker to alter or influence any portion of the transaction.

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

Transactions Testing Procedures: INS interviewed the Company's staff responsible for the underwriting area and the Chief Executive Officer and Office Manager. The examiners tested issued and renewed policies and related transactions.

Transactions Testing Results:

Findings: None.

Observations: Based upon testing of the files, there was no evidence of illegal rebating, commission cutting or inducements. The Company's processes appear to be working appropriately.

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting. See Standard VI-7 for testing of declinations. See Appendix A for applicable statutes, regulations, and bulletins.

Controls Assessment: Refer to Standard VI-1.

Controls Reliance: Refer to Standard VI-1.

Transactions Testing Procedures: INS interviewed the Company's staff responsible for the underwriting area. The examiners reviewed the twenty-five (25) liquor liability, general liability, property, and special events policies. In addition, the examiners reviewed any evidence that the Company was unfairly discriminatory in the rating or underwriting.

Transactions Testing Results:

Findings: None.

Observations: Based upon testing of the files, there was no evidence of unfairly discriminatory practices.

Recommendations: None.

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 examiners noted the following controls in the review of this Standard:

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

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

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

Transactions Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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

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

- The Company has written underwriting and rating policies and procedures designed to assure consistency in rating and underwriting reasonably.
- The Sr. Vice President of Underwriting reviews underwriting workflows in the Eclipse system at least weekly and typically every other day two to review the timeliness of quoted, issued, canceled, and endorsement processing policies. If a due date is approaching, the file is re-distributed to another underwriter to process.
- In addition, twice a year, the Company conducts internal underwriting audits for each underwriter. The Company tries to audit ten accounts per audit.

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

Transaction Testing Procedures: As part of the file review, INS reviewed the policies to ensure that endorsements and policies were issued accurately and promptly.

Transaction Testing Results:

Findings: None.

Observations: The Company has sound systems to audit files and use the results as a training tool going forward.

Recommendations: While the current process is effective, it is very manually intensive. INS encourages the Company to develop its new electronic system workflows, including ensuring greater accuracy in policy and endorsement production. The electronic system should also reduce the need for manual reviews.

Subsequent Company Action: The Company's newly implemented system automates reports to alleviate some manually intensive processes.

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

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

A for applicable statutes, regulations and bulletins.

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

- The Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- The Company's written underwriting guidelines reasonably assure appropriate acceptance and rejection of risks consistently and fairly.
- The Company will offer to write most liquor liability policies at limits of \$250,000/500,000 limits.

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

Transactions Testing Procedures: As part of the underwriting review, INS reviewed the policies rejected to ensure that the decision was not unfairly discriminatory and followed the Company guidelines.

Transactions Testing Results:

Findings: None.

Observations: INS determined that the nine (9) policies rejected did not meet Company underwriting guidelines and the reasons for the rejections were not discriminatory.

Recommendations: None.

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

Objective: This Standard addresses whether the reasons for cancellation are valid according to policy provisions and state laws. Compliance with Adverse Underwriting Notice requirements are tested in Standard VI-8. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company has written procedures for cancellation of insurance coverage in accordance with statutory requirements.
- The Company's policy is to give adequate notice in providing cancellation notices.

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

Transaction Testing Procedure: INS reviewed the Company's procedures, and the total number of eight (8) canceled policies for the examination period. INS also interviewed Company personnel on their practices for sending timely billing, lapse, and cancellation notices.

Transaction Testing Results:

Findings: None.

Observations: The Company has written procedures for cancellation. Generally, for non-pay cancellations, the insured has 25 days from the date of the cancellation notice to submit payment. However, because the process is manual, the allowable days for payment can vary. For example, if the Sr. Accounts Administrator does not work on Monday, the policyholder may receive an additional day to submit the payment. Other reasons for granting extra time may include the cancellation date falls on a holiday or a weekend. The new electronic system scheduled for implementation automatically issues non-pay cancellations according to predetermined parameters without human intervention.

Recommendations: INS recommends that these procedures are implemented into the new system to ensure consistency going forward.

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

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

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

- The Company requires compliance with underwriting guidelines.
- The Company guidelines reasonably assure appropriate rescission and cancellation of a policy.

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

Transaction Testing Procedures: INS interviewed the Sr. Vice President Underwriting, who is responsible for underwriting, and discussed rescission procedures.

Transaction Testing Results:

Findings: None.

Observations: INS reviewed the policies and procedures for rescissions, and they appear reasonable.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VI-1

Controls Reliance: Refer to Standard VI-1

Transaction Testing Procedures: INS interviewed the Company's staff responsible for the underwriting area. In conjunction with the review of the twenty-five (25) liquor liability, general liability, property, and special events policies, the examiners reviewed the files to determine if the Company applied credits, debits and deviations consistently and on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether schedule rating is properly supported. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company requires compliance with underwriting guidelines.
- The Sr. Vice President of Underwriting reviews underwriting workflows in the Eclipse system on a minimum of a weekly basis and typically every other day to review the timeliness of policies quoted, issued, canceled, and endorsement processing. If a due date is approaching, the file is redistributed to another underwriter to process.
- In addition, the Company conducts internal underwriting audits of each underwriter twice a year. The Company tries to audit ten accounts per audit. As part of these audits, the Company analyzes the IRPM credits and debits applied and whether both are appropriate and adequately documented.
- The SVP of Underwriting runs a quarterly report that evaluates the IRPM credits/debits applied the previous year to the current year.

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

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Transaction Testing Procedures: INS interviewed the Sr. Vice President Underwriting responsible for underwriting and the tools to evaluate and ensure appropriate documentation of credits/debits.

Transaction Testing Results:

Findings: None.

Observations: INS reviewed the policies and procedures for schedule rating, and they appear reasonable.

Recommendations: None.

VII. CLAIMS

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

The sole focus of HMIC is to write insureds that require liquor liability insurance. HMIC also offers owners of liquor liability establishments commercial property, general liability, and excess policies. Per a conversation with the Company, except for property insurance claims, which settle quickly, the majority of the liquor liability claims will be litigated, which is typical for this line of business.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company's best practices indicate that Claims Administration will acknowledge receipt of a new claim within 48 hours.
- Claims are received mainly as paper on the Acord form and scanned into an inbox.

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

Transaction Testing Procedure: INS reviewed the claims handling policies and procedures. INS reviewed all 154 claims closed in 2018 to determine whether the initial contact with the claimant was timely, where applicable.

The 154 represents 57 denied/closed without payment and 96 paid claims. The 57 denied claims include 12 commercial fire, 27 general liability, and 18 liquor liability, while the 96 paid claims include 22 commercial fire, 35 general liability, and 39 liquor liability.

INS also interviewed the Sr. Vice President of Claim Operation, who described the Company's general practices and procedures for processing and handling claims.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company's policy is to, within 48 hours, acknowledge a claim.
- The claim handler prepares and submits a 60-day report to management detailing the status of the coverage investigation, verification of primary and excess limits, and informed loss reserves based on the information gathered to date.
- Review claims or litigated matters every 90 days unless status warrants less frequent diary dates.

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

Transaction Testing Procedure: INS reviewed claims handling policies and procedures, and the 154 claims closed in 2018 and determined that the Company conducted complete and timely investigations. The examiners interviewed the SVP of Claim Operations to obtain information on the performance benchmarks, goals, time, and service standards used to measure and monitor claims processing activity.

Transaction Testing Results:

Findings: None.

Observations: INS determined the claim investigation practices followed Company policies and procedures. Based upon testing, the Company's processes for timely investigating claims are functioning following its policies, procedures, and statutory requirements.

Recommendations: None.

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

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

Controls Assessment: See Standard VII-2.

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

Transaction Testing Procedure: INS reviewed claims handling policies and procedures. INS reviewed all 154 claims that closed in 2018 to determine whether the Company investigated and resolved claims timely. INS also interviewed the SVP of Claim Operations, who described the Company's performance

benchmarks, goals, time, and service standards used to measure and monitor claims processing activity.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-4. The regulated entity responds to claim correspondence in a timely manner.
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Objective: The Standard addresses the timeliness of the Company's response to all claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

Transaction Testing Procedure: INS reviewed claims handling policies and procedures. INS reviewed all 154 claims that closed in 2018. INS also interviewed the SVP of Claim Operations, who described the Company's performance benchmarks, goals, time, and service standards used to measure and monitor claims processing activity.

Transaction Testing Results:

Findings: None.

Observations: There were no instances of delayed claim correspondence noted during the file reviews. Based upon testing, the Company's processes for providing timely responses to claims correspondence are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

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

- Written policies and procedures govern the Company's claims handling processes.
- Claim files documentation procedures.
- The Company maintains claim files in the respective areas responsible for claim payment.
- Claim file documentation varies by the area handling the claims activity.

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

Transaction Testing Procedure: INS reviewed claims handling policies and procedures. INS reviewed all 154 claims that closed in 2018 to determine whether documentation was adequate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company procedures require reference to the policy contract for claim provisions.
- The Company has specific procedures designed to maintain appropriate controls of personal and confidential claimant information.

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

Transaction Testing Procedure: INS reviewed the claims handling policies and procedures. INS reviewed all 154 claims that closed in 2018 to determine if the Company handled claims according to policy provisions and applicable statutes (including HIPPA), rules and regulations.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company receives claim notifications from a variety of sources.
- The Company mainly utilizes Acord forms.

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

Transaction Testing Procedure: INS reviewed claims handling policies and procedures. INS reviewed all 154 claims that closed in 2018 and the forms used.

Transaction Testing Results:

Findings: None.

Observations: INS determined the Company uses appropriate claim forms for the product offerings and complies with this Standard.

Recommendations: None.

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

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

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

- Written policies and procedures govern the Company's reserve process and review.
- The Company establishes the initial reserve when a claim is received.
- Staff claim reviews always examine loss reserves for accuracy and ensure sufficient documentation to explain all adjustments to loss or expense reserves.
- Expectations are that within six months; the Company can set an informed reserve.
- Eight months from the date of the report or six months from the 60-day report, the Company must review the reserve for adequacy.

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

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

Transaction Testing Results:

Findings: None.

Observations: INS determined that the Company's reserve process is adequate.

Recommendations: None.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- The SVP of Claim Operations conducts internal reviews of claim files to ensure handling practices are appropriate.
- An adjuster may deny a claim only after conducting a thorough and prompt investigation of the facts, liability, and damages.
- Claim denials are reviewed internally before notification to the claimant.
- A Quality Compliance Consultant and a supervisor review any adverse claim determination.
- Claims assessed as doubtful and subsequently denied must contain sufficient documentation such that someone reading the claim file can determine what led to the denial of liability.

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

Transaction Testing Procedure: INS reviewed claims handling policies and procedures. INS reviewed the 96 claims that were denied/closed without payment. INS also interviewed the Sr. Vice President of Claim Operations, who described the Company's practices and procedures for handling contested or denied claims and the procedures for insureds/claimants to appeal unfavorable claims decisions and claims processing activity.

The Sr. Vice President of Claims Operations described the Company's practices and procedures for handling contested or denied claims and the procedures for insureds/claimants to appeal unfavorable claims decisions.

Transaction Testing Results:

Findings: None.

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

Recommendations: INS recommends that the Company implement a formal appeal process for denied (non-litigated) claims.

Subsequent Company Action: The Company has modified internal processes for notifications of claim closure. These notifications encourage the provision of additional information which might impact the claim determinations. The Company will develop a template for consistent language to be incorporated into the notification letters.

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

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

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

- Written policies and procedures govern the Company's claims handling processes.

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

Transaction Testing Procedure: INS reviewed claims handling policies and procedures. Benefit check payments were considered as part of the file review. Otherwise, INS verified the Company's proof of claim payment by reviewing the screen prints' check number, check date, check payee and check amount.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's claim check issuance procedures were appropriate and functioning in accordance with its policies and procedures. The examiners did not note any significant delays between claim assessment and payment of benefits.

Recommendations: None.

Standard VII-11. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.
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Objective: The Standard addresses whether the Company's claim handling practices force claimants to (a) institute litigation for the claim payment, or (b) accept a settlement that is substantially less than due under the policy. See Appendix A for applicable statutes, regulations and bulletins.

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company maintains documented claim files to support claims payment or denial decisions.

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

Transaction Testing Procedure: INS reviewed claims handling policies and procedures and 154 claims that closed in 2018.

Findings: None.

Observations: There were no findings that the Company during the claims process compelled claimants into litigation. The Company is in compliance with this Standard.

Recommendations: None.

M.G.L. Chapter 175 §196-Payment under liquor liability insurance, notice to Attorney General.
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Objective: The statute requires that when an insurer makes a payment under the terms of liquor liability insurance, the insurer shall give notice of payment to the Attorney General within ten days of payment.

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

- Written policies and procedures govern the Company's claims handling processes.
- The Company has a specific procedure to ensure a notice of the payment is sent to the Attorney General, as required.

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

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

Findings: None.

Observations: It appears the Company is complying with this statute.

Recommendations: None.

SUMMARY

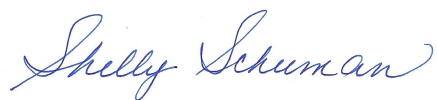
Based upon the procedures performed in this examination, INS has reviewed and tested company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims in accordance with the standards as outlined in the *2018 NAIC Market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

ACKNOWLEDGEMENT

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

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

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



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