



THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

Division of Insurance

Report on the Comprehensive Market Conduct Examination of

Liberty Mutual Insurance Company

Boston, Massachusetts

For the Period January 1, 2004 through December 31, 2004

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

One South Station • Boston, MA 02110-2208
(617) 521-7794 • FAX (617) 521-7770
Springfield Office (413) 785-5526
TTY/TDD (617) 521-7490
<http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

DANIEL O'CONNELL
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

DANIEL C. CRANE
DIRECTOR

NONNIE S. BURNES
COMMISSIONER OF INSURANCE

February 26, 2007

The Honorable Nonnie S. Burnes
Commissioner of Insurance
The Commonwealth of Massachusetts
Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Burnes:

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

LIBERTY MUTUAL INSURANCE COMPANY

at its home office located at 175 Berkeley Street Boston, MA 02117. The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division (“Division”) conducted a comprehensive market conduct examination of Liberty Mutual Insurance Company (“Liberty” or “Company”) for the period January 1, 2004 through December 31, 2004. The examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. The current market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Eide Bailly, LLP (“Eide”) were engaged to complete certain agreed-upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of Liberty using the guidance and standards of the *National Association of Insurance Commissioners Market Conduct Examiners Handbook* (“Handbook”), the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. All procedures were performed under the management and control of the market conduct examination staff of the Division. The following describes the procedures performed and the findings for the workplan steps thereon.

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

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

In addition to the processes’ and procedures’ guidance in the Handbook, the examination included a review of the Company’s policies and procedures regarding compliance with 18 U.S.C. §§ 1033 and 1034, as well as an assessment of the Company’s internal control environment. While the Handbook approach detects individual deficiencies through transaction testing, the internal control assessment provides an understanding of the key controls that Company management uses to run their business and to meet key business objectives, including complying with applicable laws, regulations and bulletins related to market conduct activities.

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

In addition to the testing that is prescribed in the Handbook, Eide will also investigate a finding from the Division's limited scope market conduct examination, whose report was dated September 22, 2005. The finding indicated that the Company used an improper rating methodology where Safe Driver Insurance Plan (SDIP) steps from excluded drivers were assessed to a policyholders plan. The SDIP steps should have correlated to the actual policyholder, not the excluded driver. The Company indicated that it has corrected this rating methodology, and has refunded any excess premium charged as a result of the improper methodology after recalculating the premium using the correct methodology. Eide will examine the SDIP step and classifications assigned to all policies selected for testing, and will evaluate whether the corrected methodology was actually applied. Eide will also interview Company personnel about how they modified their system to comply with the corrected rating methodology, and how they calculated the reimbursements for policies improperly classified. Eide will test, through our sampling process, the proper calculation and execution of SDIP refunds based on the Company's revised policies and procedures established in response to the Division's limited scope market conduct examination.

FOR INFORMATION PURPOSES ONLY

EXECUTIVE SUMMARY

The comprehensive market conduct examination was conducted concurrently with the Division's statutory financial examination of Liberty. The financial examination performed limited compliance testing since the market conduct examination was also being conducted.

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

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

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

SECTION I – COMPANY OPERATIONS / MANAGEMENT

STANDARD I-3

Findings: The Company has procedures in place to perform criminal background checks on new employees, but no such process is in place for existing employees.

Observations: Eide noted that the Company does not conduct criminal background checks on existing employees.

Recommendations: Eide recommends that the Company conduct criminal background checks on all current and prospective employees.

SECTION II – COMPLAINT HANDLING

STANDARD II-4

Findings: There were 28 complaints that did not appear to meet the 14 day response time required by the Division.

Observations: Eide noted that the Company responded to the issues raised in each of the 67 complaints tested in a complete manner through the formal complaint process. The Company further appears to treat complainants with similar fact patterns in a consistent manner, and adequately documents its complaint files.

Recommendations: The Division recommended that the Presidential Service Team (“Service Team”), which receives and distributes the complaints, establish a preferred method of direct contact with the Division. This should eliminate the response lag time sometimes caused by the mail room’s initial receipt and forwarding of the complaints to the Service Team. The Company complied with the request, and the Division has the contact information.

FOR INFORMATION PURPOSES ONLY

COMPANY BACKGROUND

The Liberty Mutual Insurance Company of Boston (“Liberty Mutual”) is a part of the Liberty Mutual Insurance Group (“Group”), a diversified global insurance organization principally engaged in domestic sale of property/casualty, life/health and international property/casualty insurance, as well as loss control and other services. Through its traditional direct agency force, independent agents in its Regional Agency Markets business unit, and captive agents in its Personal Market business unit, Liberty’s domestic insurance operations offer a full array of personal and commercial insurance coverage

On July 1, 1912 the Massachusetts Employee Insurance Association (“Association”) was formed. The Association changed its name to Liberty Mutual in 1917, when they began writing public liability insurance. That same year, Liberty Mutual signed an agreement with United Mutual Fire Insurance Company (“United”), which allowed them to provide all inclusive automobile insurance. United was later renamed Liberty Mutual Fire Insurance Company (“Liberty Mutual Fire”), and the Group, including Liberty Mutual and Liberty Mutual Fire, moved into downtown Boston. The Group became the largest writer of workers compensation insurance in Massachusetts, and remains so today. By 1937, the Group had expanded operations into all 48 states, and is currently licensed in all 50 states. The Group continued its internal expansion by organizing Liberty Life Assurance Company in 1964.

The most recent change to the Group’s structure was in March of 2002, when it was legally restructured into a stock insurance company. All former and future policyholders of any of the individual companies that are part of the Group automatically became partial owners of the Liberty Mutual Holding Company, Inc. The three largest companies held under the holding company are Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau.

The Company’s breakout by line of business for Massachusetts direct written premium during 2004 is shown in Table 1:

TABLE 1

Line of business	Liberty Mutual Insurance Company	Percent of Total
Private Passenger Automobile	341,364,859	86%
Other Liability	21,377,143	5%
Workers Compensation	15,730,803	4%
Commercial Automobile	3,015,014	1%
Commercial Multi Peril	3,882,181	1%
Homeowners Multi Peril	3,196,241	1%
Other Lines	7,698,596	2%
Total Direct Business	396,264,837	100%

Table 1 shows that the Company primarily writes private passenger automobile, other liability, and workers compensation policies. The Company utilizes a direct sales force to distribute its product across the country.

The Company is rated A (Excellent) by AM Best Company and ratings were stable over the examination period.

The key objectives of this examination were determined by the Division utilizing the Handbook. The remainder of this report outlines the testing and results by each major risk area defined by the Handbook. As stated in the Examination Approach, Standard VI-14 will discuss Eide's follow up examination of the SDIP rating and classification system.

FOR INFORMATION PURPOSES ONLY

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 company has an up-to-date, valid internal or external audit program.

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

INTERNAL AUDITS

- The Company has a well-established internal audit department that performs reviews of a variety of operational functions throughout the Company. While the internal audit department is constantly operating behind the scenes at the direction of the board and chief executive officer, any senior manager can request at any time an audit of their operational processes.
- Audit reports are distributed to all relevant operational and management personnel. The reports contain a summary of control enhancements which management has implemented or agreed to implement as a result of the audit.
- The status of significant audits, such as those that reveal a material weakness, is reported to the Board of Directors Audit Committee at their regularly scheduled meetings.

FIELD OFFICE AUDITS

- Periodic audits are performed as necessary by the internal audit department on each of the Massachusetts field offices based upon prior audit results, complaint activity and enforcement activity. Audit topics cover many of the Handbook areas including:
 - o Complaint handling and recordkeeping
 - o Use of approved sales materials
 - o Communication of mandated disclosures
 - o New business procedures
 - o Suitability
 - o Compliance with replacement guidelines
 - o Licensing requirements
 - o Sales illustration requirements
 - o General supervision
- A formal report is issued to both the home office department and the field office at the end of each field office audit.

Controls Reliance: Controls tested via document 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: Due to the nature of this Standard, no transaction testing was performed.

Transaction Testing Results: Not applicable.

Recommendations: None.

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

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

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

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

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

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994, it is a criminal offense for anyone “engaged in the business of insurance” to willfully permit a “prohibited person” to conduct insurance activity without written consent of the primary insurance regulator. A “prohibited person” is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 98-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division in writing, of all employees and producers who are affected by this law. Individuals “prohibited” under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has a written antifraud plan.
- The Company has a Special Investigative Unit (SIU) dedicated to the prevention and handling of fraudulent activities.

- The SIU holds periodic meetings with representatives from various departments at the Company including those in claims, compliance, internal audit, underwriting, sales and customer service.
- Potentially fraudulent activity is tracked by the SIU and investigated with the assistance of other departments when required by statute. Such activity is reported to the regulators as necessary.
- The Company's SIU works with the Massachusetts Insurance Fraud Bureau to investigate and properly handle possible fraud.
- The Company's claims and underwriting personnel take part in ongoing continuing education focused on identification and proper treatment of suspected fraudulent activity.
- The Company performs criminal background checks for all new employees.

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

Transaction Testing Procedure: Eide interviewed individuals with responsibility for ensuring that the Company does not employ prohibited persons as defined in 18 U.S.C. § 1033, and reviewed procedures followed by the Company to ensure compliance.

Transaction Testing Results:

Findings: The Company has procedures in place to perform criminal background checks on new employees, but no such process is in place for existing employees of the Company.

Observations: Eide noted the Company does not conduct criminal background checks on existing employees of the Company.

Recommendations: Eide recommends that the Company conduct criminal background checks on all current and prospective employees of the Company.

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

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

Standard I-5. The company is adequately monitoring the activities of the Managing General Agents (MGAs).

No work performed. The Company does not utilize MGA's in Massachusetts.

Standard I-6. Company contracts with MGAs comply with applicable statutes, rules and regulations.

No work performed. The Company does not utilize MGA's in Massachusetts.

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

Objective: This Standard is concerned with the organization, legibility and structure of files, as well as with determining if the Company is in compliance with the Commonwealth's record retention requirements. The objective of this Standard was included for review in each Standard where such policy or procedure for the retention of records exists or should exist.

Controls Assessment: The Company's home office record retention policies are described for each Standard, as applicable. In addition:

- Company policy requires that its producers keep complete records and accounts of all insurance transactions.
- The Company's standard producer contract requires that insurance records and accounts be kept current and identifiable.
- The Company's standard producer contract also maintains the Company's right to examine producers' accounts and records of all insurance transactions for as long as the Company deems reasonable, including a reasonable time after the termination of a producer contract.

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: Eide performed various procedures throughout this examination which related to review of documentation and record retention.

Transaction Testing Results: Such testing results are noted in the various examination areas and include exceptions noted in the Executive Summary.

Recommendations: Such recommendations are noted in the various examination areas and include exceptions noted in the Executive Summary.

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

M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard is concerned with whether the Company is operating within the requirements of its Certificate of Authority.

According to M.G.L. c. 175, § 32 a company must first obtain a certificate of authority from the commissioner before any contracts or policies may be issued. A company may issue policies and contracts for lines of business allowed by M.G.L. c. 175, § 47.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company operates within the lines of business approved under its existing Certificate of Authority.

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: Eide reviewed the Company's Certificate of Authority, and compared it to the lines of business it writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Company operates within the lines of business approved under its existing Certificate of Authority.

Recommendations: None.

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

M.G.L. c. 175, § 4.

Objective: This Standard is concerned with the Company's cooperation during the course of the examination.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

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

Various aspects of privacy requirements are addressed in Standards I-11 through I-17.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders at the time an application is taken. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard customer, personal and health information.
- The Company's internal audit function has conducted reviews of privacy policies and procedures.

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

Transaction Testing Procedure: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of applicants and policyholders, and is disclosed to policyholders in accordance with their policies and procedures. The Company also appears to have proper documentation to support any adverse underwriting decisions it makes.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it manages insurance information properly.

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

Various aspects of privacy requirements are addressed in Standards I-11 through I-17.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to report all litigation costs on its annual report.
- The Company has procedures in place for each division regarding the management of insurance 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: The examiners interviewed Company personnel with responsibility for workers compensation services. Insurance information management standards were tested in each section on this examination.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's policy of reporting litigation costs, and our review of information management procedures, the Company appears to be in compliance with applicable statutes and regulations.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information, and to comply with the Gramm-Leach-Bliley Act.

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

Various aspects of privacy requirements are addressed in Standards I-11 through I-17.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated it developed and implemented information technology security practices to safeguard nonpublic personal 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy policy notice that its privacy policy minimizes any improper intrusion into the privacy of policyholders, former policyholders and consumers that are not policyholders, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information, and complies with the Gramm-Leach-Bliley Act. .

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

Various aspects of privacy requirements are addressed in Standards I-11 through I-17.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.

- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated it has developed and implemented information technology security practices to safeguard nonpublic personal 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice and discussion with Company personnel, it appears that the Company disclosed privacy information to policyholders in accordance with its policies and procedures.

Recommendations: None.

Standard I-14. If the company 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.

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

Objective: This Standard is concerned with the Company's policies and procedures to provide consumers with an opt-out option as required in the Gramm-Leach-Bliley Act.

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

Various aspects of privacy requirements are addressed in Standards I-11 through I-17.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company provides consumer information to business partners or other third parties only to help provide essential services to the consumer, and therefore is not required to provide an opt out option.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information, and complies with the Gramm-Leach-Bliley Act.

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

Various aspects of privacy requirements are addressed in Standards I-11 through I-17.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, and discussion with Company personnel, it appears that the Company's policies and procedures are adequate to protect nonpublic personal financial information.

Recommendations: None.

Standard I-16. In states promulgating the health information provision of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the Department of Insurance, the company 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.

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

Objective: This Standard is concerned with ensuring that the Company's policies and procedures to ensure it maintains privacy of consumer information, and complies with the Gramm-Leach-Bliley Act.

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

Various aspects of privacy requirements are addressed in Standards I-11 through I-17.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company stated that it does not sell any personal consumer information to third parties.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company's policies and procedures are adequate to protect nonpublic personal health information.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information, and complies with the Gramm-Leach-Bliley Act.

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

Various aspects of privacy requirements are addressed in Standards I-11 through I-17.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504 (a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company has written policies and procedures in place for security of nonpublic policyholder and consumer information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations and third parties who assist the Company in processing business transactions to its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice that it has adequate and properly documented policies and procedures for the protection of nonpublic policyholder and consumer information.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

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 company complaint register.

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances.

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures governing the complaint handling process.
- The Company records all complaints are recorded in a consistent format in the complaint log.
- The Company's definition of complaint is similar to the statutory definition.
- The Company has a variety of mediums through which a consumer can file a complaint.
- The Company's Presidential Service Team ("Service Team") receives all complaints from the mailroom, and after review directs them to the appropriate department for handling.

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: Eide obtained complete complaint lists from the Company and the Division for the examination period. Eide obtained complete complaint lists from the Company and the Division for the examination period, and found that both lists logged 67 complaints about Liberty made to the Division. Eide reviewed each of the 67 complaints to ensure that they were handled in accordance with M.G.L. c.176, § 3(10).

Review of the complaints indicated the following:

Type of Complaint	Number of Complaints	Percent of Total
Claims Handling	38	57%
Underwriting	19	28%
Policyholder Services	9	13%
Marketing	1	2%
Total	67	100%

Based on these findings and our planning risk assessment, Eide performed detail testing on claims handling and underwriting as outlined later in this report.

Transaction Testing Results:

Findings: None.

Observations: For the 67 complaints tested, Eide noted that the Company appears to maintain complaint handling procedures and a complete listing of complaints in accordance with M.G.L. c. 176D, § 3(10).

Recommendations: None.

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

M.G.L. c. 176D, § 3(10).

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

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

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide reviewed a complete list of the Massachusetts complaint files from both the Company and the Division for the examination period to evaluate this Standard and ensure that the Company performs root cause analysis. Eide also interviewed management and staff responsible for complaint handling, and examined evidence of the Company's complaint handling processes and controls. To determine whether the Company provides contact information for consumer inquiries, a sampling of forms and billing notices sent to policyholders was reviewed for compliance.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures in place and communicates such procedures to policyholders.

Recommendations: None.

Standard II-3. The company 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 response to the complaint fully addresses the issues raised.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide reviewed a complete list of the Massachusetts complaint files from the examination period to evaluate this Standard.

Transaction Testing Results:

Findings: None

Observations: Eide noted that the Company responded to the issues raised in each of the 67 complaints tested in a complete manner through the formal complaint process. The Company further appears to treat complainants with similar fact patterns in a consistent manner, and adequately documents its complaint files.

Recommendations: None

Standard II-4. The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations.
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Objective: This Standard is concerned with the time required for the Company to process each complaint. Massachusetts does not have a specific time standard in the statutes or regulations. However, established Division practice requires insurers to respond to the Division within 14 days of the date it receives any complaint from the Division.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide reviewed a complete listing of the Massachusetts complaint files from the Division for the examination period to evaluate this Standard. In addition, Eide reviewed all complaints to determine the reason for delay for any which exceeded the 14 day response time required by the Division.

Transaction Testing Results:

Findings: There were 28 complaints that did not appear to meet the 14 day response time required by the Division.

Observations: Eide noted that the Company responded to the issues raised in each of the 67 complaints tested in a complete manner through the formal complaint process. The Company further appears to treat complainants with similar fact patterns in a consistent manner, and adequately documents its complaint files. Non-Division filed complaints are handled in a timely manner, averaging less than 8 days to adequately respond to the complaint.

Recommendations: The Division recommended that the Service Team, which receives and distributes the complaints, establish a preferred method of direct contact with the Division. This should eliminate the response lag time sometimes caused by the mail room's initial receipt and forwarding of the complaints to the Service Team. The Company complied with the request, and the Division has the information.

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.

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

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination of all its advertisements.

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures to govern the advertising and sales material approval process.
- All advertising and sales materials produced by the Company are reviewed by management for approval and compliance with statutory and regulatory requirements prior to use.
- The Company has a website designed for use by consumers.
- The Company discloses its history and pertinent facts, such as contact information and individual policy information, for use by consumers on their website.

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

Transaction Testing Procedure: Eide reviewed direct advertising and sales materials produced by the Company for compliance with statutory and regulatory requirements. Eide also reviewed the Company's website for appropriate disclosure of its name and address, and consistency with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: The results of Eide's testing of marketing material showed that advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3, and with Division of Insurance Bulletin 2001-02.

Recommendations: None.

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

Objective: This Standard is concerned with whether all of the Company's producer training materials are in compliance with the Commonwealth's statutes, rules and regulations.

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

- The Company's sales force in Massachusetts is largely direct producers.
- The Company directly supervises the producers and provides continuing education courses to keep them up to date on statute and rule changes.
- The Company utilizes e-mail to immediately convey changes in statutes or regulatory interpretations so that the producers are in compliance.

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: Eide performed no transaction testing beyond inquiry and observation.

Transaction Testing Results: None.

Recommendations: None.

Standard III-3. Company 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 applicable statutes, rules and regulations.

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

- The Company uses direct sales and internal producers for a majority of its Massachusetts business.

- The Company's external producers are assigned by Commonwealth Automobile Reinsurers ("CAR") and are called Exclusive Representative Producers ("ERP's") for the sale of automobile insurance only.

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: Eide conducted interviews with key personnel to determine what type of communications with producers generally occurs, and reviewed examples of communications that occurred during the examination period.

Transaction Testing Results:

Findings: None.

Observations: The Company's communications to producers appear to be accurate and reasonable.

Recommendations: None.

Standard III-4. Company mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations.

Property/Liability; M.G.L. c. 175, § 193R.

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

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges.
- The Company policy is to file all affinity discounts with the Division.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the marketing and underwriting processes. Eide selected 62 policies issued or renewed during the examination period for testing of premium discounts associated with group policies. Eide verified that the discount for each of the 17 policies underwritten as a group policy was properly applied, and that it was included on the Division's list of filed and approved discounts.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 17 new or renewal group policies, it appears that each of the premium discounts was properly applied, and that each was approved by the Division.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

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. Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

M.G.L. c. 175, §§ 162I and 162S.

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division.

Pursuant to M.G.L. c. 175, § 162I, all persons who solicit, sell or negotiate insurance in the Commonwealth are required to be licensed for that line of authority. Further, producers shall not act as a producer of the Company unless they have been appointed by them pursuant to M.G.L. c. 175, § 162S.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has a centralized licensing department charged with ensuring that all producers are licensed and appointed.
- The producer's manager or employer is responsible for notifying the Company's central licensing unit of any employment change using the required protocol.
- Notification to the central licensing unit of a change to a producer's name or address is not required.
- The Company notifies the Division of producer terminations on a weekly basis through the Divisions Online Producer Appointment website, ("OPRA").
- When a producer is appointed or terminated, the required information is entered into the Company's licensing database system. A member of the Company's central licensing unit will analyze the information for completeness and accuracy. Upon verification that the producer has an active license, the analyst will use the automated system to notify the Division of the producer's appointment.
- The Company's appointment procedures are designed to comply with M.G.L. c. 175, § 162S, which requires that a producer be appointed by the Company as producer within 15 days from the date the producer's contract is executed, or from the date the first coverage application is submitted.

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, with the exceptions noted below.

Transaction Testing Procedure: Eide interviewed individuals with responsibility for producer contracting and processing of appointments. Eide selected a sample of 94 sales during the examination period for testing. For each of the sales, Eide verified that the Company's producer

was included on the Division's list of the Company's appointed producers. Eide also eliminated all exceptions that were for simple name or address changes. The Company provided evidence of licensure for each of the 13 exceptions Eide pulled for testing from the remaining producer exceptions not related to name or address changes.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing new and renewal business written, Eide noted no violations of M.G.L. c. 175, §§ 162I and 162S, as all sales were produced by properly licensed producers.

Recommendations: None.

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

M.G.L. c. 175, §§ 162I and 162S.

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division.

Pursuant to M.G.L. c. 175, § 162I, producers must be licensed for each line of authority that they solicit, sell or negotiate. Further, any such producer shall not act as a producer of the Company unless the producer has been appointed by the Company pursuant to M.G.L. c. 175, § 162S.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has a centralized licensing department charged with ensuring that all producers are licensed and appointed.
- The Company performs criminal background checks on all applicants it deems in good order.
- The producer's manager or employer is responsible for notifying the Company's central licensing unit of any employment change using the required protocol.
- Notification to the central licensing unit of a change to a producer's name or address is not required.
- The Company notifies the Division of terminations of producers through OPRA weekly.
- When a producer is appointed or terminated, the required information is entered into the Company's licensing database system. A member of the Company's central licensing unit will analyze the information for completeness and accuracy. Upon verification that the producer has an active license, the analyst will use the automated system to notify the Division of the producer's appointment.
- The Company's appointment procedures are designed to comply with M.G.L. c. 175, § 162S, which requires that a producer be appointed by the Company within 15 days from the date the producer's contract is executed, or from the date the first coverage application is submitted.

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, with the exceptions noted below.

Transaction Testing Procedure: Eide interviewed individuals with responsibility for producer contracting and processing of appointments. Eide verified that the producer for each of the 94 tested sales from the examination period was on the Division's list of the Company's appointed producers.

Transaction Testing Results:

Findings: None

Observations: The Company provides written notice to producers of the requirements of 18 U.S.C. § 1033.

Recommendations: None

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

M.G.L. c. 175, § 162T.

Objective: This Standard is concerned with whether the Company's termination of producers complies with applicable statutes requiring notification to the Commonwealth and the producer.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and of the cause of any "for cause" termination.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has a centralized licensing department charged with ensuring that all producers are licensed and appointed.
- The producer's manager or employer is responsible for notifying the Company's central licensing unit of any employment change using the required protocol.
- Notification to the central licensing unit of a change to a producer's name or address is not required.
- The Company notifies the Division of terminations of producers through OPRA weekly.
- When a producer is appointed, the required information is entered into the Company's licensing database system. A member of the Company's central licensing unit will analyze the information for completeness and accuracy. Upon verification that the producer has an active license, the analyst will use the automated system to notify the Division of the producer's appointment.
- The Company's appointment procedures are designed to comply with M.G.L. c. 175, § 162S, which requires that a producer be appointed by the Company as producer within 15

days from the date the producer's contract is executed, or from the date the first coverage application is submitted.

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: Eide requested documentation of the Company's reporting of all producer terminations from the examination period to the Division.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company notifies terminated producers using a letter whose contents have been approved by the Division. When the termination is "for cause" the Company sends the notice to the producer via certified mail, return receipt requested. The Company notifies the Division of the termination consistent with procedures established by the Division.

Recommendations: None.

Standard IV-4. The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.
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Objective: The Standard is concerned that the Company has a policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders.

Controls Assessment: Refer to Standards IV-1 and IV-3.

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: Eide reviewed documentation, such as zip codes, from 94 selected sales from the examination period for evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: Eide's testing noted no evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Recommendations: None.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: The Standard is concerned that the Company's records for terminated producers adequately document the action taken.

Pursuant to M.G.L. c. 175, §§ 162R and 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and of the cause for any such termination as defined in M.G.L. c.175, § 162R.

Controls Assessment: Refer to Standard IV-3.

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: Eide obtained a list of producers terminated during the examination period, and reviewed the reasons for each termination.

Transaction Testing Results:

Findings: None.

Observations: Based on the testing noted above, the Company's internal records adequately document reasons for producer terminations. None of the terminations tested were for cause as defined in M.G.L. c. 175, § 162R. The Company has procedures in place to notify the Division of terminations whether "for cause" or "not for cause".

Recommendations: None.

Standard IV-6. Producer accounts current (account balances) are in accordance with the producer's contract with the company.

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

V. POLICYHOLDER SERVICE

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

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

Automobile: M.G.L. c. 175, §§ 193B and 193B ½.

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

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company offers their customers the option of paying their entire premium at the inception of their policy or utilizing a monthly payment plan. The amount of the deposit required for the monthly payment plan correlates to the customer's payment history, with the remaining unpaid premium billed in equal installments over the life of the policy.
- The Company offers a wide variety of payment methods for the convenience of their customers, including payroll deduction, electronic funds transfer, and credit card payment.
- Company policy is to send automobile policy renewal notices, on which coverage changes can be requested, so that policyholders receive them 35 days prior to the policy renewal date.
- Company policy is to send commercial policy renewal notices, on which coverage changes can be requested, so that policyholders received them between 10 and 90 days prior to the renewal date. The average renewal notice is received by the policyholder 30 days prior to renewal.
- Billing notices are generated automatically through policy administration, and are sent along with the renewal notice for the direct bill program. The premium payment is due upon the renewal 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: Eide interviewed Company personnel with responsibility for policyholder service. In conjunction with the underwriting and rating testing, Eide reviewed billing notice dates, fees and interest charges for policies issued or renewed during the examination period. For each renewed policy, the date the renewal letter was sent to the

policyholder, as tracked in the Company's database, was compared with the policy's effective renewal date.

Transaction Testing Results:

Findings: None.

Observations: Eide's review of the 62 new or renewal automobile policies tested for the examination period showed that billing notices for renewal policies were mailed 35 days prior to the policy expiration date, and approximately 30 days prior to the due date for new business. Fees and interest charges on installment payments appeared to be properly calculated and applied.

Eide's review of the 32 new or renewal workers compensation policies tested for the examination period showed that billing notices for renewal policies were sent 10-90 days prior to the policy expiration date, and approximately 30 days prior to premium due date for new business. Fees and interest charges on installment payments appeared to be properly calculated and applied.

Recommendations: None.

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

M.G.L. c. 175, § 187B.

Refer to the Underwriting and Rating Section Standards VI-16 and VI-23 for assessments and findings.

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

Objective: This Standard is concerned with whether the Company provides timely and responsive information to policyholders and claimants from the appropriate department.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has a variety of ways in which an insured may contact them.
- Recipients of written policyholder information requests note their receipt in the correspondence module of the software that maintains policy information such as claims history, sales comments, and policy information. The recipient will either handle the request or refer as appropriate for proper handling.
- The Company has no formal guidelines for the timeliness of responses to correspondence.
- Issues that require additional review are handled separately from those that require standard responses. A "standard" response includes when the policyholder inquires about

things such as policy effective dates, status of their claim check, and other general information questions. Issues that could require additional review include when a policyholder disputes the amount of a claim payment after it has been adjusted, or has a formal complaint about the Company's actions related to any area from sales and underwriting, to processing a claim.

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: Eide discussed correspondence procedures with Company personnel, and reviewed actual correspondence between policyholders and the Company, in conjunction with underwriting and rating, policyholder service and claims standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of general correspondence between policyholders and the Company with regard to underwriting and rating, policyholder service and claims, it appears that correspondence directed to the Company is answered in a timely and responsive manner by the appropriate department, in accordance with their policies and procedures. The complaint testing performed also supports the timeliness of responses by the Company.

Recommendations: None.

Standard V-4. Claims history and loss information is provided to insured in timely manner.

Objective: This Standard is concerned with whether the Company provides history and loss information to the insured in a timely manner.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The insured's loss history is readily accessible in the software used by Liberty.
- Claim examiners contact the insured the same day as receiving the assignment.
- Claims are normally settled and paid within 60 days of being filed. Exceptions to this timeframe typically only exist when there are questions regarding liability or substantial losses, (such as losing an entire house or major medical issues), whose total costs are not necessarily known within 60 days of a claim being filed.
- The Company provides claims history and paid loss information directly to policyholders when the policyholder makes such a request to the Company.

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

Transaction Testing Procedure: Eide discussed the Company's policies and procedures for responding to policyholder inquiries on claims history and paid loss information with Company personnel. Eide included timely response testing in the Claims Handling section as part of the transaction testing procedures.

Transaction Testing Results:

Findings: None.

Observations: Eide noted no evidence of the Company being non-responsive to the policyholder inquiries on underwriting and rating, claims handling, complaints and policyholder service. The Company's policies and procedures for responding to policyholder inquiries on claims history and paid loss information appear adequate and reasonable.

Recommendations: None.

<p><u>Standard V-5.</u> Whenever the company transfers the obligations of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained the prior approval of the insurance department and the company has sent the required notices to affected policyholders.</p>

No work performed. The Company did not enter into assumption reinsurance agreements during the examination period.

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 company's rating plan.

M.G.L. c 175, § 193R.

Automobile; M.G.L. c. 175E, §§ 4 and 7; M.G.L. c. 175, §§ 113B and 162E; 211 CMR 56.00, 78.00, 86.00, 124.00, and 134.00.

Workers Compensation; 211 CMR 110.00.

Objective: This Standard is concerned that the rates charged by the Company are filed and approved with the Division.

Pursuant to M.G.L. c. 175E, § 7 and 211 CMR 78.00, every insurer, or rating organization authorized to file on behalf of such insurer, shall file with the Commissioner every manual of its classifications, rules and rates, rating plans and modifications of any of the foregoing, not less than 45 days before the effective date thereof. Pursuant to M.G.L. c. 175, § 113B, various discounts and surcharges are statutorily mandated. Pursuant to M.G.L. c. 175, § 162E, automobile rate filings must include commission costs. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. Pursuant to M.G.L. c. 175E, § 4, rates shall be reduced for any insured age sixty-five or older. Pursuant to 211 CMR 56.00, premium discounts are mandated for election of optional repair shop endorsement plans. 211 CMR 86.00 requires premium discounts for anti-theft devices. 211 CMR 124.00 mandates premium discounts for certain safety features, and 211 CMR 134.00 requires each driver to receive a step rating according to the Safe Driver Insurance Plan, which requires corresponding discounts and surcharges. Pursuant to 211 CMR 110.00, any workers' compensation paper rate filing should be timely filed with the Division's docket clerk during normal business hours.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- The Company offers affinity group discounts.
- The Company files rates annually with the Division as required by M.G.L. c. 174A § 6.
- The Company recognizes and utilizes the Safe Driver Insurance Plan required by 211 CMR 134.00.

- The Company has set discounts for motor vehicle safety features and anti-theft devices consistent with statutory requirements.
- The Company uses the rates set forth in the manual published by the Automobile Insurance Bureau of Massachusetts (“AIB”) when underwriting automobile policies in Massachusetts.
- The Company uses the rates, discounts, and guidelines set forth by the Workers Compensation Rating and Inspection Bureau (“WCRIB”) when underwriting workers compensation policies in Massachusetts.

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

Transaction Testing Procedure: Eide interviewed the Company’s underwriting personnel to gain an understanding of the underwriting process. Eide selected a sample of 62 automobile policies issued or renewed during the examination period for testing of rates, classifications and premium discounts. Eide also selected 32 workers compensation policies for testing of rates, classifications, and experience modifiers. Eide verified that each policy’s premium discounts and surcharges for multiple coverages complied with statutory and regulatory requirements, and had documentation to support the discounts and surcharges given. Eide also reviewed database information to ensure that sufficient underwriting information was available at the time the underwriting decision was made.

Transaction Testing Results:

Findings: None.

Observations: Eide believes from its review of available documentation of rates and surcharges given that the Company applies rates and surcharges according to statutory requirements and regulatory information.

Recommendations: None.

Standard VI-2. Disclosures to insureds concerning rates and coverage are accurate and timely.

M.G.L. c. 174A, § 11; M.G.L. c. 175A, § 11.

Automobile; M.G.L. c. 175E, §§ 11 and 11A.

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

Pursuant to M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11, the insurer will furnish to the insured any requested rate information in a timely manner. Pursuant to M.G.L. c. 175E, § 11, an information guide shall be provided upon application which outlines choices of coverage available to insured’s and an approximation of differences in cost among various types of coverage and among competing carriers. Pursuant to M.G.L. c. 175E, § 11A, producers shall

disclose coverage options in simple language to every person they solicit, including the option to exclude oneself and members of one's household from personal injury protection coverage.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures for processing new and renewal business.
- If information or forms are missing from new business or renewal applications, the Company sends a letter to the producer requesting the missing information, along with an updated listing of the information required to complete all applications.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete, including use of all Company required forms and instructions.
- The Company provides training to producers to remind them that they must give the information guide describing general policy provisions to consumers when new business is written.
- Company policy is to provide the information guide to policyholders upon policy issuance.
- The Company provides continuing education for their producers regarding new statutes and statutory changes.
- The Company immediately communicates statutory changes or policy developments through e-mail or other mediums available.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Through the interview process, we learned of the producer training that is provided to ensure that information guides are distributed to policyholders when new policies are issued. Eide reviewed the information guides utilized for new business, and found that they adequately meet the statutory disclosure requirements of M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11. Since distribution of informational brochures is not tracked as part of the underwriting process by either the producers or the Company, we substantiated compliance through document observation and corroborating inquiry.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's inquiries and observation of documents, the Company appears to provide required coverage disclosures to insureds upon initial application in accordance with statutory guidelines. The ongoing continuing education and communication of statutory changes to producers substantiates that they are informed, and are providing the most up to date information to the insured.

Recommendations: None.

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

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

Objective: This Standard is concerned with ensuring that the Company does not permit illegal rebating, commission cutting or inducements; and that producer commissions adhere to the commission schedule.

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company utilizes the direct selling method.
- The producer contracts and home office policies and procedures are designed to comply with statutory underwriting and rating requirements that prohibit special inducements and rebates.

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

Transaction Testing Procedure: Eide reviewed new business materials including advertising, producer training materials and manuals for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company's processes to prohibit illegal acts, including special inducements and rebates are functioning in accordance with Company policies and procedures, and statutory underwriting and rating requirements.

Recommendations: None.

Standard VI-4. Credits and deviations are consistently applied on a non-discriminatory basis.

M.G.L. c. 175, § 193R.

Automobile; M.G.L. c. 175E, § 4; M.G.L. c. 175A, § 5; 211 CMR 56.00, 86.00, 124.00 and 134.00.

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

M.G.L. c. 175A, § 5 states automobile rating will be determined by past history and will not be unfairly discriminatory. Pursuant to M.G.L. c. 175E, § 4, risks shall not be grouped by sex or marital status, and shall not be grouped by age except to produce the reduction in rates for insureds age sixty-five or older. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 56.00 mandates discounts for participating repair shops if the Company offers a preferred repair shop option. 211 CMR 86.00 mandates discounts for automobiles equipped with anti-theft mechanisms. Pursuant to 211 CMR 124.00, insurers will provide discounts for automobiles equipped with proper safety features. Pursuant to 211 CMR 134.00, automobile insurers are required to use Safe Driver Insurance Plan ratings when applying discounts and surcharges.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has elected to offer affinity group discounts, and files them annually with the Division.
- The Company does not offer a preferred repair shop option to its automobile policyholders.
- The Company provides discounts for certain groups in Massachusetts approved by the Division. The standard discount is 5% for standard employer groups, and 8% for employer groups with a favorable loss history. Alumni are also provided the 8% discount. The Company also indicated that competitive force, such as two insurers pursuing the same employer group, also may play a role in the discount offered.
- The Company has written underwriting guidelines designed to assure reasonable consistency in the application of premium discounts and surcharges for all policies.
- The Company follows the rating and discounts outlined in the AIB manual to ensure compliance with automobile policies.
- The Company follows the rating and discounts outlined by the WCRIB to ensure compliance for workers compensation policies.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 62 automobile policies issued or renewed during

the examination period for testing of rate classifications, premium discounts and surcharges. Eide also selected 32 commercial policies for testing. Eide verified that all affinity discounts included in the examined policies were on the filed list maintained by the Division. Eide verified that each policy's premium discounts and surcharges were compiled according to statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's testing of 94 new or renewal policies that the Company calculates premium, premium discounts and surcharges for multiple coverages in accordance with statutory and regulatory requirements.

Recommendations: None.

Standard VI-5. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.

M.G.L. c. 152, § 153A.

Objective: This Standard is concerned with the calculation of risk premium, and whether assigned class codes are properly supported with adequate documentation.

The Commonwealth of Massachusetts has established the WCRIB to set the standards for workers compensation rates and discounts provided in the Commonwealth of Massachusetts. Pursuant to M.G.L. c. 152 § 153A, a company is permitted to make downward deviations in rates pending prior approval of the Division.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company uses the underwriting manual produced by the WCRIB as their own underwriting manual.
- The Company's producers are allowed to write workers compensation policies for the Company.
- The Company continuously performs premium audits to ensure that the rates and codes applied to policies are appropriate.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 32 workers compensation policies issued or

renewed during the examination period for testing of rate classifications, premium discounts and surcharges. Eide examined the rates and class codes assigned to the policy, and recalculated the premium to ensure compliance with the guidelines set forth by the WCRIB. Eide also examined documentation of premium audits performed by the Company to discover any trends of improper class code application, and to ensure that all findings from the audit were followed up with corrective action. Finally, Eide searched the sample for deviations from the WCRIB rates, and ensured that any deviations were properly filed with the Division for approval.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's testing of 32 workers compensation policies issued or renewed during the examination period that the Company calculates risk premium in compliance with statutory and regulatory requirements.

Recommendations: None.

Standard VI-6. Verification of use of the filed expense multipliers; the company should be using a combination of loss costs and expense multipliers filed with the Department.

Objective: This Standard is concerned with how the risk premium is calculated, and whether the Company is using expense multipliers that are filed with the Commonwealth.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company uses the underwriting manual produced by the WCRIB as their own underwriting manual.
- The Company's producers are allowed to write its workers compensation policies.
- The Company continuously performs premium audits to ensure that appropriate rates and codes are applied to policies.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 32 workers compensation policies issued or renewed during the examination period for testing of expense multipliers. Eide compared the expense multipliers used by the Company with the expense multipliers outlined in the WCRIB manual.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 32 new or renewal workers compensation policies, it appears that expense multipliers are applied in compliance with statutory and regulatory requirements.

Recommendations: None.

Standard VI-7. Verification of premium audit accuracy and the proper application of rating factors.
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Objective: This Standard is concerned with the accuracy of premium audits performed by the Company on commercial policyholders. Specifically, it is concerned that the rates applied to payroll are appropriate for the client circumstances.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company uses the underwriting manual produced by the WCRIB as their own underwriting manual.
- The Company's producers are allowed to write its workers compensation policies.
- The Company continuously performs premium audits to ensure that appropriate rates and codes are applied to policies.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 32 workers compensation policies issued or renewed during the examination period for testing of audit premium accuracy. Eide compared the rates used by the Company with the rates outlined for the same class code in the WCRIB manual. Eide also considered the appropriateness of the class codes assigned to each insured. Finally, Eide examined the Company's audit findings, and ensured that the Company adjusted its underwriting practices for the renewal policy.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's testing of 32 workers compensation policies issued or renewed during the examination period that the Company conducts accurate premium audits in accordance with statutory and regulatory requirements.

Recommendations: None.

Standard VI-8. Verification of experience modification factors.

Objective: This standard is concerned that the Company applies appropriate experience modification discount to policies. Experience modification factors in Massachusetts are determined by the WCRIB.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company uses the underwriting manual produced by the WCRIB as their own underwriting manual.
- The Company's producers are allowed to write its workers compensation policies.
- The Company continuously performs premium audits to ensure that appropriate rates and codes are applied to policies.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 32 workers compensation policies issued or renewed during the examination period for testing of experience modification application accuracy. Eide examined the experience modification factor utilized in the policy, and ensured that it agreed with the experience modification factor recorded on the WCRIB's website. Eide examined the WCRIB's website to ensure that any policies not including an experience modification were not approved for the discount.

Transaction Testing Results:

Findings: None.

Observations: The result of Eide's testing of 32 workers compensation policies issued or renewed during the examination period appears to show that experience modifications are appropriately applied in accordance with statutory and regulatory requirements.

Recommendations: None.

Standard VI-9. Verification of loss reporting.

Objective: This standard is concerned with the Company's adequacy in maintaining loss information under each workers compensation policy and reporting of losses on unit statistical reports to the NCCI.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company uses the underwriting manual produced by the WCRIB as their own underwriting manual.
- The Company's producers are allowed to write its workers compensation policies.
- The Company continuously performs premium audits to ensure that the rates and codes applied to the policy are appropriate.
- The Company maintains loss information on each policy in an easy to access and review manner.
- The Company has policies and procedures in place to ensure timely and accurate reporting to the National Council on Compensation Insurance. ("NCCI").

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 32 workers compensation policies issued or renewed during the examination period for testing of loss maintenance and reporting. Eide examined the Company's loss history for each policy, and its procedures for reporting unit statistical data to the NCCI.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 32 new or renewal workers compensation policies, it appears that the loss reporting procedures are appropriately applied and timely forwarded to the NCCI in accordance with statutory requirements.

Recommendations: None.

<p>Standard VI-10. Verification of company data provided in response to the NCCI call on deductibles.</p>
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Objective: This standard is concerned with the Company's compliance with reporting deductibles to the NCCI, which uses this information to identify trends in the insurance industry.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company uses the underwriting manual produced by the WCRIB as their own underwriting manual.
- The Company's producers are allowed to write its workers compensation policies.
- The Company continuously performs premium audits to ensure that appropriate rates and codes are applied to the policies.

- The Company maintains loss information on each policy in an easy to access and review manner.
- The Company has policies and procedures in place to ensure timely and accurate reporting to the NCCI.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 32 workers compensation policies issued or renewed during the examination period for testing of reporting of deductibles.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 32 new or renewal workers compensation policies, it appears that the deductible reporting procedures are appropriately applied and timely forwarded to the NCCI in accordance with statutory requirements.

Recommendations: None.

Standard VI-11. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.

M.G.L. c 175, §§ 162F and 193T.

Automobile; M.G.L. c. 175, §§ 22E, 95B, 113K, and 113N; M.G.L. c. 175E, § 4.

Objective: This Standard is concerned with whether unfair discrimination is occurring in the sale of insurance.

Pursuant to M.G.L. c. 175, § 22E, no insurance company, and no officer or producer thereof in its behalf, shall refuse to issue, renew or execute as surety a homeowners or motor vehicle liability policy or bond, or any other insurance based on the ownership or operation of a motor vehicle because of age, sex, race, occupation, marital status, or principal place of garaging of the vehicle. Pursuant to M.G.L. c. 175, § 95B, discrimination against abuse victims is prohibited in the course of underwriting property insurance. Pursuant to M.G.L. c. 175, § 113K, individuals over the age of 16 are entitled to receive automobile insurance. M.G.L. c. 175, § 113N prohibits the use of physical examinations in the underwriting process. According to M.G.L. c. 175, § 162F, producers have the right to use personal insurance information in obtaining coverage. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation, or physical impairment unless verified by actuarial support. Pursuant to M.G.L. c. 175E, § 4, risks shall not

be grouped by sex, marital status or age, except to produce the reduction in rates for any insured age sixty-five or older.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- Company policy prohibits unfair discrimination in underwriting in accordance with M.G.L. c. 175E, § 4 and c. 175, § 22E, and will accept any risk unless the consumer has outstanding balances due to insurers over the previous year, or has a history of non-payment of premium over the past two years.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 94 policies covering all lines of business issued or renewed during the examination period for testing of any unfair discrimination in underwriting. Ten of the 94 tested policies were cancelled during the examination period, and those were compared to the other 84 policies to ensure that similar risks were not handled differently. All policies tested were also compared to others with similar circumstances to ensure consistent application of discounts and surcharges.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of the 10 policies cancelled during the examination period, Eide noted no evidence that the Company's underwriting practices are unfairly discriminatory.

Recommendations: None.

Standard VI-12. All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable).

M.G.L. c. 175, §§ 2B, 22A, and 192.

Automobile; M.G.L. c. 175, § 113A.

Workers Compensation; 211 CMR 113.00 and 115.00.

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

M.G.L. c. 175, § 2B describes policy form language; all items forming a part of the contract are listed on the declaration page, and filed with the Division. M.G.L. c. 175, § 22A and 113A states that such policy forms must be filed with the Division for approval. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and also are required to be filed with the Division for prior approval. Pursuant to 211 CMR 113.00, every insurer licensed to write workers compensation policies shall offer small deductible plans as an optional endorsement. Pursuant to 211 CMR 115.00, only companies with over \$375,000 in Massachusetts written premium are eligible to issue large deductible policies.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company uses standard industry forms and endorsements for automobile insurance that are approved by the Division prior to use.
- The Company utilizes standard industry forms that include all WCRIB required disclosures for workers compensation policies.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 94 policies covering all lines of business issued or renewed during the examination period for testing of the use of the standard policy forms and approved endorsements in compliance with statutory requirements. The standard forms used for each policy, along with all endorsements effective on the policy, were compared to the forms approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 94 new or renewal policies, it appears that the Company is using the standard policy forms and endorsements approved by the Division in compliance with statutory requirements. Examination of 30 workers compensation policies indicated that they had reasonably small deductibles offered. Examination of 2 large deductible workers compensation policies indicated that the company complies with the requirements set forth in 211 CMR 115.00.

Recommendations: None.

Standard VI-13. Producers are properly licensed and appointed (if required) in the jurisdiction where the application was taken.

See the Producer Licensing Section Standards IV-1 and IV-2.

Standard VI-14. Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

Objective: This Standard is concerned with whether underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures are designed to reasonably assure consistency in application of underwriting guidelines, rating classifications, premium discounts and surcharges at the inception of coverage.
- Company relies on pre-inspection services, information from prior insurers and physical documentation to provide information pertinent to assigning rates and discounts to automobile policies
- The Company relies on the WCRIB to determine experience modification factors and rates for the various class codes.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 94 policies covering all lines of business issued or renewed during the examination period for testing of whether underwriting, rating and classification are based on adequate information developed at or near inception of the coverage. Discounts and surcharges given were traced to source documentation provided by producers. Eide verified that the SDIP surcharges and discounts that were assigned to policies were assessed based on the insured driver and not on excluded drivers. Eide also discussed with responsible Company personnel the implementation of corrections to the SDIP classifications for automobile policies with excluded drivers, and the reimbursement to policyholders of excess premium paid as a result of the mis-classifications, as outlined in their response to the Division's prior targeted examination. Eide's sample included policies which included SDIP surcharges and discounts which Eide tested for accuracy and proper application of credits or payments if applicable. In addition, Eide reviewed database information to ensure that adequate information was available at the time the underwriting decision was made.

Transaction Testing Results:

Findings: None.

Observations: Through examining available documentation of discounts and surcharges given, Eide believes that the Company is properly applying discounts. However, there was inadequate documentation provided to support the discount given for one of the policies tested which appears to have been an isolated incident. Eide found no incorrect

SDIP classifications, and the corrective actions taken by the Company appeared reasonable.

Recommendations: None.

Standard VI-15. File documentation adequately supports decisions made.

Objective: This Standard is concerned with whether the Company has adequate documentation to support its underwriting decisions, including applications, support for discounts applied and physical inspections when required.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written company policies and procedures are designed to ensure that required information is obtained and maintained by the Company or its producers.
- The Company educates producers by various means, including on-site training, online information and written guidelines.
- The Company relies on pre-inspection services, information from prior insurers, and physical documentation to provide information pertinent to assigning rates and discounts to automobile policies
- The Company relies on the WCRIB to determine experience modification factors and rates for the various class codes.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 94 policies covering all lines of business issued or renewed during the examination period for testing of whether adequate documentation exists to support underwriting decisions made

Transaction Testing Results:

Findings: None.

Observations: Through examining available documentation of discounts and surcharges given, Eide believes that the Company normally has adequate documentation. However, there was inadequate documentation provided to support the discount given for one of the policies tested which appears to have been an isolated incident. Eide found all other files adequately documented in all cases.

Recommendations: None.

Standard VI-16. Policies and endorsements are issued or renewed accurately, timely and completely.

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

Objective: This Standard is concerned with whether the Company issues policies and endorsements timely and accurately.

Pursuant to M.G.L. c. 175, § 113S, pre-insurance inspection of vehicles is required for all but new vehicles and the vehicles of existing customers who have been customers for at least 3 years. 211 CMR 94.00 describes the standards and procedures for conducting pre-insurance vehicle inspections, and the exemptions from such requirements.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires the use of the standard Massachusetts policy forms and endorsements which are approved by the Division.
- The Company's producers are required to use such forms and endorsements as guidelines when providing quotes to consumers at the time of application.
- Policyholders receive a renewal notice on which they can request coverage changes 35 days prior to their automobile policy renewal date.
- Policyholders receive a renewal notice on which they can request coverage changes 10 to 90 days prior to the effective date of the renewal workers compensation policy. The average Company renewal notice is received 30 days prior to the effective date of the renewal.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 94 policies covering all lines of business issued or renewed during the examination period to test whether new and renewal policies including endorsements were issued timely and accurately. The date renewal letters were sent was compared to the effective date of coverage for renewal policies.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company issues new and renewal policies, including endorsements, timely and accurately.

Recommendations: None.

Standard VI-17. Audits when required are conducted accurately and timely.

Objective: This Standard is concerned that premium audits be performed correctly and timely on workers compensation policies when required.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company uses the underwriting manual produced by the WCRIB as their own underwriting manual.
- The Company's producers are allowed to write its workers compensation policies for the Company.
- The Company continuously performs premium audits to ensure that the rates and codes applied to the policy are appropriate.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 32 workers compensation policies issued or renewed during the examination period for testing the accuracy of audits, and whether their findings were corrected within a reasonable period of time.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company performs premium audits in a manner consistent with statutory and regulatory requirements, and appears to follow up on the audit findings within a reasonable period of time.

Recommendations: None.

Standard VI-18. Company verifies that VIN number submitted with application is valid and that the correct symbol is utilized.

Automobile; 211 CMR 94.08.

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

211 CMR 94.08 requires that pre-insurance inspections of vehicles verify the VIN.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The producer is responsible for obtaining the VIN when the application is completed.
- Company policy and procedures require that pre-insurance inspections of vehicles verify the VIN as required by 211 CMR 94.08.
- The Company uses insurance industry software linked to the ISO 9000 to verify the VIN's accuracy, and to obtain the correct symbol for that particular vehicle.
- The Company manually breaks down a VIN according to the AIB manual when it cannot be found in the ISO 9000 database.

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: Eide interviewed Company personnel with responsibility for the underwriting process for capturing the VIN information. Eide performed walkthroughs of transactions to gain understanding of the VIN entry into the ISO database, and how information related to that VIN is gathered. Eide selected a sample of 62 automobile policies issued or renewed during the examination period, and re-verified the VIN utilizing the Company's software linked to the ISO 9000.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company verifies VIN numbers in a manner consistent with statutory and regulatory requirements. There was inadequate documentation for 2 of 62 VINs which were not verified as correct by ISO 9000. Eide determined these to be isolated incidents through review of the remaining sample coupled with interviews conducted with personnel.

Recommendations: None.

Standard VI-19. The company does not engage in collusive or anti-competitive underwriting practices.

M.G.L. c. 176D, §§ 3(4) and 3A.

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

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to accept any risk unless the consumer has outstanding balances due to insurers over the previous year, or has a history of non-payment of automobile insurance over the past two years, in compliance with statutory requirements.
- The Company must accept all automobile business from producers known as “ERPs” that are assigned to them by CAR.
- Automobile premium rates are determined annually by the Division and are consistent among all private passenger automobile insurers. As such, anti-trust pricing concerns are minimal for private passenger automobile policies.
- Commercial rates are determined biannually by the WCRIB and are consistent among all commercial insurers. As such, anti-trust pricing concerns are minimized for workers compensation policies issued in Massachusetts.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 94 policies covering all lines of insurance issued or renewed during the examination period to test whether underwriting practices appeared collusive or anti-competitive. All available paper and electronic documentation in each policy file was examined, including on-screen notes prepared by the underwriters.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide’s testing, Eide noted no instances where the Company’s underwriting policies and practices appeared collusive or anti-competitive.

Recommendations: None.

Standard VI-20. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations in application of mass marketing plans.

M.G.L. c. 175, § 193R.

Objective: This Standard is concerned that the Company’s underwriting practices are not unfairly discriminatory, and are in compliance with applicable statutes, rules and regulations.

Pursuant to M.G.L. c. 175, § 193R any design or plan whereby insurance is afforded to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its

employees or members through a payroll deduction plan or otherwise is a mass merchandising or group marketing system, and such practices must be in compliance with applicable statutes and regulations, and not be unfairly discriminatory.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written Company underwriting guidelines are designed to assure reasonable consistency in application of premium discounts and surcharges, and underwriting practices that are not unfairly discriminatory.
- The Company provides the same discount of between 5-8% to each member of any given affinity group.
- Premium discounts available to affinity groups are filed with and approved by the Division.
- Experience modification status is determined by the WCRIB for commercial policies.

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: Eide interviewed Company personnel with responsibility for the marketing and underwriting processes. Eide selected a sample of 94 policies from all lines of business issued or renewed during the examination period for testing of premium discounts.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 94 new or renewal policies, it appears that each of the premium discounts was properly applied, and that the application was not unfairly discriminatory.

Recommendations: None.

Standard VI-21. All group personal lines property and casualty policies and programs meet minimum requirements.

M.G.L. c. 175, § 193R.

Objective: This standard is concerned with whether all group policies meet the minimum requirements, and whether the group exists for more than the sole purpose of receiving group rates.

Pursuant to M.G.L. c. 175, § 193R, group rates are allowed but must not be higher than the same rate in the individual market; individuals cannot be canceled except for fraud or non-payment, and insurers must maintain 3 years of group loss history.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has an approved group listing that is updated annually.
- The Company has procedures in place to ensure that groups have been formed for more than the sole purpose of receiving group rates.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 62 private passenger automobile policies issued or renewed during the examination period to test whether group policies are properly approved, with rates not higher than in the individual market. Seventeen (17) of the 62 tested policies included a group discount. Eide ensured that the approved group listing is complete and accurate. Eide traced each group policy to the list of approved groups maintained by the Division. Eide also verified that the rate structures were identical for both the individual and group policies before any discounts were applied, thus ensuring that the base rates were non-discriminatory.

Transaction Testing Results:

Findings: None.

Observations: The results of Eide's testing of 17 new and renewal group policies with discounts applied appeared to show that the Company's group underwriting practices comply with statutory and regulatory requirements.

Recommendations: None.

Standard VI-22. Rejections and declinations are not unfairly discriminatory.

M.G.L. c. 175, § 193T.

Automobile; M.G.L. c. 175, §§ 22E and 113D.

Objective: This Standard is concerned with the fairness of application rejections and declinations.

M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation or physical impairment unless verified by actuarial support. Pursuant to M.G.L. c. 175, § 22E, no insurance company or producer thereof in its behalf, shall refuse to issue, renew or execute as surety a motor vehicle liability policy or bond, or any other insurance based on the ownership or operation of a motor vehicle because of age, sex, race, occupation, marital status, or principal place of garaging of the vehicle. In addition, M.G.L. c. 175, § 113D states that any person aggrieved by

the refusal of any company or a producer thereof to issue such a policy may file a written complaint with the Commissioner within ten days after such refusal.

Controls Assessment: See Standard VI – 11.

Controls Reliance: See Standard VI – 11.

Transaction Testing Procedure: See Standard VI – 11.

Transaction Testing Results: See Standard VI – 11.

Recommendations: See Standard VI – 11.

Standard VI-23. Cancellation/non-renewal and declination notices comply with policy provisions and state laws and company guidelines.

M.G.L. c. 175, §§ 187C and 193R.

Automobile; M.G.L. c. 175, §§ 22C, 113A and 113F.

Objective: This standard is concerned that adequate notice to policyholders is provided prior to policy cancellations and non-renewals, and that policy declinations state the reasons for such declinations.

Pursuant to M.G.L. c. 175, § 22C, cancellation of automobile policies can only occur due to nonpayment, fraud, driver suspension or failure to comply with renewal requirements after a 30 day notice. Pursuant to M.G.L. c. 175, § 113A, no cancellation of the policy shall be valid unless written notice of the specific reasons for such cancellation is given at least 20 days prior to the effective date thereof, which date shall be set forth in the notice. M.G.L. c. 175, § 113F states that any Company which does not intend to issue, extend or renew a motor vehicle liability policy shall give written notice to the insured (or producer in certain circumstances) of its intent 45 days prior to the termination effective date. Such notice must also be sent to the Registry of Motor Vehicles. Every insurance producer or broker receiving such notice from a company shall, within 15 days of its receipt, send a copy of such notice to the insured, unless, prior to such notice being issued, another insurer has issued a motor vehicle policy covering that insured's vehicles. Pursuant to M.G.L. c. 175, § 187C, any Company shall effect cancellation by serving written notice thereof as provided by the policy, and by paying the full return premium due. M.G.L. c. 175, § 193R allows cancellation of an individual certificate holder within a group policy only due to fraud or non-payment.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Past due notices on automobile policies are sent 11 days after the premium due date. Cancellation notices are sent 34 days after the premium due date, with policy cancellation effective 48 days after the due date.

- Commercial policyholders are usually given a minimum of 30 days notice of cancellation.
- Reminder notices are not sent prior to the notice of 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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 94 policies from all lines of business issued or renewed during the examination period for underwriting testing. Of the 94 policies, 10 were cancelled policies. These 10 policies were examined to ensure that the reasons for cancellation and the prior notice of cancellation complied with statutory requirements. The reason for each policy's cancellation or non-renewal was compared to the Company's underwriting cancellation policy guidelines. Eide verified that the cancellation form used was the standard approved form, and that the date of the cancellation letter, when compared to the cancellation effective date, showed that timely notice was given within statutory guidelines.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to utilize standard approved forms for all cancellation notices.

Recommendations: None.

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

M.G.L. c. 175, §§ 187C, 193P and 193R.

Automobile; M.G.L. c. 175, §§ 22C, 113A and 113F.

Refer to Standard VI-23 for control assessments, testing procedures and testing results.

Standard VI-25. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

M.G.L. c. 175, §§ 187B and 187C.

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

Objective: This Standard is concerned with the proper calculation and return of unearned premium upon timely cancellation of policies.

M.G.L. c 175, § 113A provides, in part, that in the event of cancellation of a motor vehicle policy by either the insured or the company, the insured, if he has paid the premium to the company, is entitled to a return of premium calculated on a pro rata basis. Under M.G.L. c. 175, § 176A, premium refunds due to cancellations must be paid within 30 days to the policyholder and notice must be given. Pursuant to M.G.L. c. 175, § 187B, a company is required to give notice of the refund due, as well as to pay the proper amount of unearned premium upon policy termination. Under M.G.L. c. 175, § 187C, a company canceling a policy of insurance must tender the full return premium due, without deductions, at the time the cancellation notice is served on the insured. Pursuant to 211 CMR 85.00, short rate tables may be required to calculate premium refunds, depending on when the cancellation occurred.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that premium refunds on cancellations be calculated properly and paid timely.
- The Company employee who receives a cancellation request issues a memorandum to the underwriting department noting the cancellation date and the amount of any return premium due.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 94 policies from all lines of business issued or renewed during the examination period for underwriting and rating testing. Of the 94 policies, 10 were cancellations or non-renewals. Each of these 10 policies was tested for timely payment of proper refund amounts. Each of the 10 cancelled policies we tested had a refund due. The date on the return of premium check was compared to the effective end date of the policy.

Transaction Testing Results:

Findings: None.

Observations: In one instance the Company recalculated the unearned premium due after a premium audit was performed. This is normal protocol in a workers' compensation program but took longer than the remaining sample of refunds. This is not an exception since the sample was drawn across several lines of business in which standard timeliness varies. Premium refunds otherwise generally appear to be properly calculated and returned timely.

Recommendations: None.

Standard VI-26. Rescissions are not made for non-material misrepresentation.

M.G.L. c. 175, § 187D.

Automobile; M.G.L. c. 175, § 22C.

Objective: This Standard is concerned with whether decisions to rescind and to cancel coverage are made appropriately.

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires compliance with underwriting guidelines in accordance with M.G.L. c. 175, §§ 22C and 187D.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 94 policies from all lines of business issued or renewed during the examination period for underwriting and rating testing. Of the 94 selected policies, 10 were cancelled policies. The reason for cancellation of each of the 10 policies was reviewed to ensure that it was within statutory guidelines.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of cancellations during the examination period, cancellations do not appear to be made in violation of statutory requirements.

Recommendations: None.

Standard VI-27. All policies are correctly coded.

Objective: This Standard is concerned with the accuracy of statistical coding.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written underwriting policies and procedures that are designed to assure reasonable consistency in classification and rating.
- Rates, premiums and discounts are annually submitted to and approved by the Division, and the Company applies such rates to information provided by the applicant to determine final premium.
- The Company's policies and procedures require that Company personnel confirm that the coding reported by the producer is correct and current.
- The Company has a process to correct data errors and make any changes needed.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process to determine whether there are sufficient controls to ensure accurate and timely completion of statistical reports.

Transaction Testing Results:

Findings: None.

Observations: Through testing performed on the 94 selected policies, the Company's statistical coding appears to be accurate.

Recommendations: None.

VII. CLAIMS

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

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

M.G.L. c. 176D, § 3(9)(b).

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

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures governing the claims handling process.
- The Company primarily uses insurance adjusters that are Company employees, but will use independent adjusters as demand dictates.
- Claims are typically received via phone for both automobile and commercial policies, but insureds have the option to enter a claim via fax or mail.
- All claim notifications and related correspondence are recorded on a mainframe based automated claims management system.
- Reserves, which are probable amounts payable resulting from a claim, are usually recorded the first day, but never more than five days after receiving the claim.
- The Company follows CAR's policy of requiring response to all physical damage claims within two business days from the receipt of a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- The Company follows CAR's policy of contacting all injured persons, or their legal representatives, within two business days of receipt of a claim.
- The Company follows CAR's policy of contacting an uninjured person, or their legal representative, within three business days of receipt of a claim.
- Claims management personnel can access the claims system to monitor open claims.
- Quality Control Reviews are conducted monthly by team managers and supervisors, who then draft and timely implement recommendations for any findings.
- The Home Office also performs the following file review audits: BI Closed File Review, SIU Quality Assurance Review, Appraisal Quality Assurance Review, and the Property Quality Assurance Review. Any findings are relayed to the appropriate department. If the finding is related to a process that is being performed incorrectly the process is reformed

and documented, then communicated to affected individuals. Isolated individual errors are corrected, and necessary steps to prevent future errors of a similar nature are taken.

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: Eide interviewed Company personnel to understand the claims handling process and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to test the timeliness of the Company's initial contact with claimants. Eide verified the date each selected claim was first reported to the Company, and noted whether the Company's initial response was made in a timely manner according to applicable statutes and Company procedures.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all but one of 80 tested claims were reported and investigated according to the Company's policies and procedures, and responses to claims correspondence were timely. One claim exceeded the Company's typical two to three day response time in corresponding to a claimant's attorney. However, it appears to be an isolated incident when compared to the remaining sample. Based upon the results of Eide's testing, it appears that the Company's processes to provide timely responses to claims correspondence are functioning in accordance with their policies and procedures, and are reasonably timely.

Recommendations: None.

<u>Standard VII-2. Timely investigations are conducted.</u>
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M.G.L. c. 176D, § 3(9)(c).

Objective: The Standard is concerned with the timeliness of the Company's claims investigations.

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures governing the claims handling process.
- The Company primarily uses insurance adjusters that are Company employees, but will use independent insurance adjusters as demand dictates.
- Claims are typically received via phone for both automobile and commercial policies, but insureds have the option to enter a claim via fax or mail.

- All claim notifications and related correspondence are recorded on a mainframe based automated claims management system.
- Reserves, which are probable amounts payable resulting from a claim, are usually recorded the day the claim is received, but never more than five days after receiving the claim.
- The Company follows CAR's policy of requiring response to all physical damage claims within two business days from the receipt of a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- The Company follows CAR's policy of contacting all injured persons, or their legal representatives, within two business days of receipt of a claim.
- The Company follows CAR's policy of contacting an uninjured person, or their legal representatives, within three business days of receipt of a claim.
- Claims management personnel can access the claims system to monitor open claims.
- Quality Control Reviews are conducted monthly by team managers and supervisors, who draft and timely implement recommendations for any findings.
- The Home Office also performs the following file review audits: BI Closed File Review, SIU Quality Assurance Review, Appraisal Quality Assurance Review, and the Property Quality Assurance Review. Any findings are relayed to the appropriate department. If the finding is related to a process that is being performed incorrectly, the process is reformed and documented then communicated to affected individuals. Isolated individual errors are corrected, and necessary steps to prevent future errors of a similar nature are taken.

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: Eide interviewed Company personnel with responsibility for the claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 80 paid or closed without payment claims during the examination period to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified the date that each selected claim was reported to the Company, and noted whether its investigation was conducted in a reasonable and timely manner.

Transaction Testing Results:

Findings: None.

Observations: Eide noted whether all paid or closed without payment claims selected for testing were reported according to Company's policies and procedures, and that its claims investigation appeared timely. It appears from Eide's testing that the Company's processes to report and investigate claims are functioning in accordance with their policies and procedures, and are reasonable and timely.

Recommendations: None.

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

M.G.L. c. 176D, § 3(9)(f); M.G.L. c. 175, §§ 28 and 112.

Automobile; M.G.L. c. 175, §§ 113O and 191A; 211 CMR 123.00.

Objective: The Standard is concerned with the timeliness of the Company's claim settlements.

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

M.G.L. c. 175, § 112 states that liability of any company under a motor vehicle liability policy, or under any other policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage.

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

M.G.L. c. 175, § 191A prescribes information that must be included in a motor vehicle policy. The policy shall specify that in the event of a loss, the insured must give notice as soon as is practical to the company. In the event of larceny, the insured must give notice to the police and, within sixty days after filing proof of loss, the company shall pay the amount of loss provided in the policy.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures governing the claims handling process.
- The Company primarily uses insurance adjusters that are Company employees, but will use independent insurance adjusters as demand dictates.

- Claims are typically received via phone for both automobile and commercial policies, but insureds have the option to enter a claim via fax or mail.
- All claim notifications and related correspondence are recorded on a mainframe based automated claims management system.
- Reserves, which are probable amounts payable resulting from a claim, are usually recorded the day the claim is received, but never more than five days after receiving the claim.
- The Company follows CAR's policy of requiring response to all physical damage claims within two business days from the receipt of a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- The Company follows CAR's policy of contacting all injured persons, or their legal representatives, within two business days of receipt of a claim.
- The Company follows CAR's policy of contacting an uninjured person, or their legal representatives, within three business days of receipt of a claim.
- Claims management personnel can access the claims system to monitor open claims.
- Quality Control Reviews are conducted monthly by team managers and supervisors, who draft and timely implement recommendations for any findings.
- The Home Office also performs the following file review audits: BI Closed File Review, SIU Quality Assurance Review, Appraisal Quality Assurance Review, and the Property Quality Assurance Review. Any findings are relayed to the appropriate department. If the finding is related to a process that is being performed incorrectly the process is reformed and documented then communicated to affected individuals. If the error is isolated the individual error is corrected and any steps necessary to prevent future errors of a similar nature are taken.
- The Company's policy is to resolve claims in compliance with M.G.L. c. 175, § 112.
- The Company reports all suspected fraudulent claims activity to the Massachusetts Insurance Fraud Bureau.

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: Eide interviewed Company claims personnel to understand its claims handling processes and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide verified the date each selected claim was reported, and whether it was timely and reasonably resolved by the Company.

Transaction Testing Results:

Findings: None.

Observations: Eide noted whether each tested claim was timely handled according to the Company's policies and procedures. Eide verified the date each selected claim was reported to the Company and whether it was resolved in a reasonable and timely manner. Of the 80 claims tested, 51 were closed claims paid within a reasonable amount of time; 21 claims were closed without payment, and 8 claims were open as of fieldwork testing

with no payment. Of the 21 claims closed without payment, 13 were automobile claims that either were sent to SIU, the insured withdrew their claim or the claim was closed by the Company after it did not receive information that was requested from the claimant. The remaining 8 claims closed without payment were commercial claims where the injured claimant never went to the doctor, despite multiple notices from the Company of the need to do so. The 8 claims open with no payment were due to the claim involving ongoing litigation, or the insurer was waiting for information from the insured. Based upon the results of Eide's testing, it appears that the Company's processes to timely resolve claims are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

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

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

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

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to respond to questions about claims in a timely manner.
- Company policy is to investigate and resolve all claims according to Company performance standards.
- Claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.

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: Eide interviewed Company personnel to understand claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide verified the date each selected claim was reported to the Company, and noted whether it timely responded to claims correspondence.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all but one of 80 tested claims were reported and investigated according to the Company's policies and procedures, and responses to claims correspondence were timely. One claim exceeded the Company's typical two to three day response time in corresponding to a claimant's attorney. However, it appears to be an isolated incident when compared to the remaining sample. Based upon the results of Eide's testing, it appears that the Company's processes to provide timely responses to claims correspondence are functioning in accordance with their policies and procedures, and are reasonably timely.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to the decision on the claim.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's written claim processing guidelines require that key information be completed, signed, and maintained in the file, including, but not limited to:
 - o Notice of loss with relevant accident date, accident description, and names of involved parties.
 - o Relevant reports from investigating police authorities.
 - o Applicable medical reports and other investigative correspondence.
 - o Other pertinent written communication.
 - o All legal correspondence.
 - o Documented or recorded telephone communication.
- Claim activity is logged and documented in chronological order.
- Claim reserve evaluations, adjustments and assessments are documented.
- Source correspondence and investigative reports are scanned and maintained electronically.
- Claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.

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: Eide interviewed Company claims personnel to understand claims handling processes, and obtained documentation supporting such processes. Eide selected

a total sample of 80 claims paid or closed without payment during the examination period to evaluate the Company's compliance with its claims handling policies and procedures. Eide reviewed the file for each selected claim and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that claims were reported and investigated according to the Company's policies and procedures, and that claim file documentation was adequate.

Recommendations: None.

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

M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); M.G.L. c. 175, §§ 22I, 24D, 111F, 112, 112C and 193K.

Automobile; M.G.L. c. 175, §§ 113J and 113O; 211 CMR 75.00 and 133.00.

Workers Compensation; 211 CMR 112.00.

Objective: The Standard is concerned with whether proper claim settlement amounts are paid to appropriate claimants/payees.

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlement of claims in which liability has become reasonably clear an unfair trade practice.

M.G.L. c. 175, § 22I allows companies to retain unpaid premium due from claim settlements. Claim payments must also comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, §§ 111F and 113J. In addition, M.G.L. c. 175, § 112C requires companies to reveal to an injured party making a claim against an insured, the amount of the limits of said insured's liability coverage upon receiving a request in writing for such information.

M.G.L. c. 175, § 112 states that liability of any company under a motor vehicle liability policy, or under any other policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage, shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage.

M.G.L. c. 175, § 113O prohibits payments by an insurer for theft coverage until the insured has received notice from the appropriate police authority that insured's statement has been properly

filed. Companies are required to report the theft or misappropriation of a motor vehicle to a central organization engaged in motor vehicle loss prevention. 211 CMR 75.00 designates the National Insurance Crime Bureau as the central organization to be used for this purpose.

M.G.L. c. 175, § 193K prohibits discrimination by companies in the reimbursement of proper expenses paid to certain professions and occupations, such as physicians or chiropractors, licensed in Massachusetts pursuant to M.G.L. c. 112.

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

Pursuant to 211 CMR 112.00, no preferred provider organization may enter into a preferred provider agreement without complying with the filing and other requirements set forth in 211 CMR 112.00.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures governing the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- All claim notifications and related correspondence are recorded on a mainframe based automated claims management system.
- The Company has procedures to comply with requirements in M.G.L. c. 175, §§ 111F and 112C to furnish medical reports, and/or the amount of the insured’s policy limits, upon receiving requests for such information from a claimant or their attorney.
- The Company has procedures to comply with requirements in M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support for certain defined claim payments.
- The Company’s policy prohibits discrimination in the reimbursement of proper expenses paid to certain professions and occupations as required by M.G.L. c. 175, § 193K.
- Claims management personnel access the claims system on a weekly basis to monitor open claims.
- Claims managers perform periodic claims reviews at various times throughout each calendar year to examine compliance with Company claims policies.
- The Company does not offer preferred provider arrangements in Massachusetts, therefore the filing requirements are not applicable.

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: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified that each selected claim was handled in accordance with applicable policy provisions, statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: It appears that the Company's processes to handle claims in accordance with policy provisions, statutory and regulatory requirements are functioning in accordance with their policies and procedures.

Recommendations: None.

Standard VII-7. The company uses the reservation of rights and excess of loss letters, where appropriate.
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Objective: The Standard is concerned with the Company's use of reservation of rights letters, and its procedures for notifying an insured when the amount of loss will exceed policy limits.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures governing the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Each claim representative handles claims up to a fixed dollar amount that is tied to their level of experience. All claims exceeding this dollar limit require additional approval to be settled. .
- The Company uses reservation of rights and excess of loss letters when warranted.
- Claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate the Company's compliance with its claim handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether the Company sent reservations of rights or excess loss letters when warranted.

Transaction Testing Results:

Findings: None.

Observations: Eide noted whether each of 80 tested claims was reported and investigated according to the Company's policies and procedures, and that claim file documentation appeared adequate.

Recommendations: None.

Standard VII-8. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.
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Objective: The Standard is concerned with the Company's timely refund of deductibles from subrogation proceeds.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- All claims with subrogation potential are handled in the Company's centralized subrogation office in Allentown, PA.
- Company policy is to resolve all subrogated claims in a timely manner.
- When liability or coverage issues are undisputed with another carrier, the Company waives the deductible to its insured.
- Claims managers perform periodic claims reviews at various times throughout each calendar year to examine compliance with Company claims policies.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable.

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide reviewed the files for each selected claim, and noted whether subrogation recoveries were timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted whether the subrogation recoveries for all paid and closed without payment claims selected for testing were timely and accurate, and properly supported according to Company policies and procedures. Based upon the results of Eide's testing, it appears that the Company's processes to make subrogation recoveries to insureds are functioning in accordance with their policies and procedures.

Recommendations: None.

Standard VII-9. Company claim forms are appropriate for the type of product.

Objective: The Standard is concerned with the Company's usage of claim forms that are proper for the type of product.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Claim processing guidelines require that key documentation be completed, signed, and included in the file, including but not limited to: notice of loss with relevant accident date, accident description, and names of involved parties.
- The Company's policy is to use state mandated claim forms whenever applicable, and then use a combination of industry standard forms and in-house forms which have been approved by the Division.
- Claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.

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: Eide interviewed Company personnel to understand claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether its claim reporting was appropriate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted whether all paid or closed without payment claims selected for testing were reported according to the Company's policies and procedures, and that claim file documentation was adequate. Based upon the results of Eide's testing, it appears that the Company's processes to document reported claims are functioning in accordance with their policies and procedures.

Recommendations: None.

Standard VII-10. Claim files are reserved in accordance with the company's established procedures.

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to its reserving practices.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures governing the claims handling process.
- Company policy is to evaluate claims timely and establish adequate reserves on all reported claims.
- Reserves, which are probable amounts payable resulting from a claim, are usually recorded the day the claim is received, but never more than five days after receipt.
- Claims managers perform periodic claims reviews times throughout each calendar year to examine compliance with Company claims policies.

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: Eide interviewed Company personnel to understand claims reserving processes, and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate the Company's compliance with its claims reserving policies and procedures. Eide verified the date each selected claim was reported to the Company, and noted that claim reserves were evaluated, established and adjusted in a reasonable and timely manner. Eide also reviewed the workpapers of the Division's financial examination team to provide support for the adequacy of reserving.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that reserves for each selected claim were evaluated, established and adjusted according to the Company's policies and procedures, and that the claims investigation by the Company appeared timely. Based upon the results of Eide's testing, it appears that the Company's processes to evaluate, establish and adjust claim reserves are functioning in accordance with their policies and procedures, and are reasonable and timely.

Recommendations: None.

Standard VII-11. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

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

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

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that claim denials state the contractual basis for non-payment, and inform the claimant of the time frame and specific steps necessary to pursue their right of appeal.
- All claim notifications are recorded on a mainframe based automated claims management system.
- Claims management can access the claims system to monitor open claims.
- A written explanation of all denied and closed-without-payment claims is provided to each claimant.

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: Eide interviewed Company personnel to understand claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate compliance with Company claims handling policies and procedures. Eide verified the date the claim was reported, reviewed correspondence and investigative reports and noted whether the Company handled each claim timely and properly before closing or denying it

Transaction Testing Results:

Findings: None.

Observations: Eide noted whether each tested claim was timely handled according to the Company's policies and procedures. Eide verified the date each selected claim was reported to the Company and whether it was resolved in a reasonable and timely manner. Of the 80 claims tested, 51 were closed claims paid within a reasonable amount of time, 21 claims were closed without payment, and 8 claims were open as of fieldwork testing with no payment. Of the 21 claims closed without payment, 13 were automobile claims that either were sent to SIU, the insured withdrew their claim or the claim was closed by the Company after it did not receive information that was requested from the claimant. The remaining 8 claims closed without payment were commercial claims where the injured claimant never went to the doctor, despite multiple notices from the Company of the need to do so. The 8 claims open with no payment were due to the claim involving ongoing litigation, or the insurer was waiting for information from the insured. Documentation of all denied or closed-without-payment claims tested appeared complete, including correspondence and other documentation. Based upon the results of

Eide's testing, it appears that the Company's processes do not unreasonably deny or delay payment of claims.

Recommendations: None.

Standard VII-12. Cancelled benefit checks and drafts reflect appropriate claim handling practices.

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures governing the claims payment process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Company procedures verify the proper payee and claim payment amount prior to check issuance.
- Claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.
- The SIU investigates claims that may be fraudulent.
- Claims management personnel can access the claims system to monitor open claims.
- Quality Control Reviews are conducted monthly by team managers and supervisors, who timely draft and implement recommendations for any findings.
- The Home Office also performs the following file review audits: BI Closed File Review, SIU Quality Assurance Review, Appraisal Quality Assurance Review, and the Property Quality Assurance Review. Any findings are relayed to the appropriate department. If the finding is related to a process that is being performed incorrectly the process is reformed and documented then communicated to affected individuals. Isolated individual errors are corrected, and necessary steps to prevent future errors of a similar nature are taken.
- The Company reports all suspected fraudulent claims activity to the Massachusetts Insurance Fraud Bureau.

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims payment processes, and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate compliance with Company claims payment policies and procedures. Eide reviewed the file for each selected claim, and noted whether claim payment practices were appropriate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each selected claim was reported and investigated according to Company policies and procedures, with adequate claim payment

documentation. Eide noted no instances where claim payment practices or investigation of suspicious claims appeared inappropriate. Based upon the results of Eide's testing, it appears that the Company's processes to issue claim payment checks are appropriate, and functioning in accordance with their policies and procedures.

Recommendations: None.

Standard VII-13. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

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

Objective: The Standard is concerned with 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 what the policy contract provides for.

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

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's claims handling guidelines require the uniform and consistent handling of claims settlement and payment.
- The Company has an easy to access complaint line that any customer may utilize to discuss perceived delays in claim processing.
- Claims management can access the claims system to monitor open claims.
- Claims managers perform periodic claims reviews throughout each calendar year to examine compliance with Company claims policies.

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: Eide interviewed Company personnel to understand claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 80 claims paid or closed without payment during the examination period to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified the

date the tested claim was reported, reviewed related correspondence and investigative reports, and noted whether it was handled timely and properly.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175A, § 15(a).

Automobile; 211 CMR 15.07.

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

Pursuant to M.G.L. c. 175A, § 15(a), insurers must record and report their loss and countrywide expense experience in accordance with the statistical plan promulgated by the Commissioner in accordance with the rating system on file with the Commissioner. The Commissioner may designate a rating agency or agencies to assist her in the compilation of such data. In accordance with 211 CMR 15.07, the Commissioner established and fixed the Automobile Statistical Plan for Fire, Theft, Comprehensive, Collision and Allied Coverages (dated April 8, 1971) as the statistical plan to be used in accordance with M.G.L. c. 175A, § 15(a).

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to timely report complete and accurate loss data to appropriate rating bureaus.
- Claims management personnel reconcile the underlying data for completeness and accuracy, and generate exception reports to ensure the loss data is properly reported.

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: Eide interviewed Company personnel to understand loss statistical reporting processes and obtained documentation supporting such processes.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to report loss statistical data to rating bureaus timely and accurately, and its processes are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

SUMMARY

Based upon the procedures performed in this comprehensive examination, Eide has reviewed and tested Company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims as set forth in the *NAIC Market Conduct Examiner's Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. Eide has made recommendations to address various concerns related to company operations and management, and complaint handling.

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ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Eide Bailly LLP, 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 (“comprehensive examination”) of the Company.

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

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

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