



# **THE COMMONWEALTH OF MASSACHUSETTS**

## **OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**

### **Division of Insurance**

*Report on the Comprehensive Market Conduct Examination of*

*Liberty Mutual Fire Insurance Company*

*Boston, Massachusetts*

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

**NAIC COMPANY CODE: 23035**

**EMPLOYER'S ID NUMBER: 04-1924000**



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February 26, 2007

The Honorable Nonnie S. Burnes  
Commissioner of Insurance  
The Commonwealth of Massachusetts  
Division of Insurance  
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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 FIRE 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 Fire 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 incidents of deficiencies through transaction testing, the internal control assessment provides an understanding of the key controls that Company management uses to run their business and to meet key business objectives, including complying with applicable laws, 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.

## EXECUTIVE SUMMARY

The comprehensive 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 on 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, the Company should take corrective action for all jurisdictions, and provide a report of any such corrective actions taken to the Division. Any corrective action requires agreement of both the Company and the Division prior to implementation.

All Massachusetts insurance laws, regulations and bulletins cited in this report may be viewed via a link on the Division's website at [www.mass.gov/doi](http://www.mass.gov/doi).

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.

## 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: The Company did not respond to 4 complaints within 14 days as required by

the Division. However, once received by the Presidential Service Team (“Service Team”), the complaints were handled within 14 days as required by the Division.

Observations: For the 12 complaints tested, Eide noted that the Company responded to the issues raised through the formalized complaint process in a complete manner. In addition, there was adequate documentation to support complaint handling. Further, the Company appears to treat complainants with similar fact patterns in a consistent and reasonable fashion. Finally, complaint files were adequately documented for review purposes.

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 central mail room’s initial receipt and forwarding of the complaints. The Company complied with this request, and the Division has the contact information

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## COMPANY BACKGROUND

The Liberty Mutual Fire Insurance Company of Boston (“Liberty Mutual Fire” or “Company”) is a part of the Liberty Mutual Insurance Group (“Group”), a diversified global insurance organization principally engaged in domestic 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 Mutual Fire’s domestic 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 Insurance Company (“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, 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 legally restructured into a stock insurance company. All past and future policyholders of any of the individual companies that are part of the Group automatically became a part owner 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**

<b>Line of Business</b>	<b>Liberty Mutual Fire Insurance Company</b>	<b>Percent of Total</b>
Homeowners Multiple Peril	69,753,930	48%
Workers Compensation	40,626,972	28%
Other Liability	7,321,255	5%
Commercial Multi Peril	5,770,691	4%
Fire	5,441,480	4%
Other Commercial Auto Liability	5,003,277	3%
Other	12,041,156	8%
<b>Total</b>	<b>145,958,761</b>	<b>100%</b>

Table 1 shows that the Company primarily writes homeowners insurance, workers compensation policies, and other liability 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.

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## I. COMPANY OPERATIONS/MANAGEMENT

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

<b>Standard I-1. The company has an up-to-date, valid internal or external audit program.</b>
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Objective: This Standard is concerned with whether the Company has 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 the 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*

- The internal audit department performs periodic audits as necessary 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 and 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 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 when required by statute.
- 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.

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.

**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.

<b>Standard I-7. Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.</b>
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*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 record retention requirements of the Commonwealth. 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.

<b>Standard I-8. The company is licensed for the lines of business that are being written.</b>
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<b>M.G.L. c. 175, §§ 32 and 47.</b>
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*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 or marketed. 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 exam.

Per M.G.L. c. 175, § 4, the Commissioner has the 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. The Company also provides an annual disclosure notice 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:*** Eide interviewed Company personnel with responsibility for policyholder services and reviewed its privacy notice. The Division's 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 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.

According to M.G.L. c. 175 § 25A the Company must file an annual report reporting all litigation costs incurred.

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 incurred on its filed annual statement.
- 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. The standard of insurance information management was tested with each individual section on this exam.



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, 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. The Company also provides an annual disclosure notice 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 Division's financial examination team conducted a review of the privacy policies of the Company, 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 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. The Company also provides an annual disclosure notice 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 Division's examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the privacy policies of the Company, 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 their 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. The Company also provides an annual disclosure notice to policyholders via standard mail.
- The Company has stated that they have 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 privacy policies of the Company, 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 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. The Company also provides an annual disclosure notice 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 privacy policies of the Company 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:*** The 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 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. The Company also provides an annual disclosure notice 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:*** Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The Division's 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'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.
- 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. The Company also provides an annual disclosure notice 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 privacy policies of the Company, which provided additional comfort to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the written documentation of the Company's privacy notice, it appears that the Company's policies and procedures for the protection of nonpublic policyholder and consumer information are adequate and properly documented.

Recommendations: None.

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## 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 as required by statute.

Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of 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.
- 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") initially receives all complaints, and 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 listings from the Company and the Division for the examination period. Eide compared the two listings to ensure completeness, and found that the Division and the Company had both logged 12 complaints made to the Division regarding the Company during the examination period.



Review of the complaints indicated the following:

Type of Complaint	Number of Complaints	Percent of Total
Claims Handling	6	50%
Policyholder Services	5	42%
Underwriting	1	8%
<b>Total</b>	<b>12</b>	<b>100%</b>

Based on these findings coupled with 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 12 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 demonstrate that, (a) the Company has documented procedures for complaint handling, (b) the procedures in place are sufficient to enable satisfactory handling of complaints received as well as to conduct root cause analyses 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 listing of the Massachusetts complaint files from both the Company and the Division for the examination period to evaluate this Standard. In addition, Eide interviewed management and staff responsible for complaint handling, and examined evidence of the Company's processes and controls. A sampling of forms and billing notices sent to policyholders was reviewed to determine whether the Company provides required contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>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.</b>
--

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 listing of the Massachusetts complaint files from the examination period to evaluate this Standard. In addition, each complaint was examined to determine if the Company's response was given beyond the 14 days required by the Division.

Transaction Testing Results:

Findings: None.

Observations: For the 12 complaints tested, Eide noted that the Company responded to the issues raised through the formalized complaint process and in a complete manner. In addition, there was adequate documentation to support complaint handling. Further, the Company appears to treat complainants with similar fact patterns in a consistent and reasonable fashion. Finally, complaint files were adequately documented for review purposes.

Recommendations: None.

<b>Standard II-4. The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations.</b>
--

*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 notice of 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 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:* The Company did not respond to 4 complaints within 14 days as required by the Division. However, once received by the Service Team, the complaints were handled within 14 days as required by the Division.

*Observations:* For the 12 complaints tested, Eide noted that the Company responded to the issues raised through the formalized complaint process and in a complete manner. In addition, there was adequate documentation to support complaint handling. Further, the Company appears to treat complainants with similar fact patterns in a consistent and reasonable fashion. Finally, complaint files were adequately documented for review purposes.

*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 central mail room's initial receipt and forwarding of the complaints. The Company complied with this request, and the Division has the contact 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 for disseminating 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:

- Written Company policies and procedures 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 their use.
- The Company has a website designed for use by consumers.
- The Company discloses its history and pertinent facts on its website, including locations, contact information, and individual policy 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:* 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 adherence to 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 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 the Company's producer training materials are in compliance with state 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.

Findings: None.

Observations: 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, and are called Exclusive Representative Producers 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 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 Company 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. There were 4 policies underwritten as group policies during the examination period. Eide verified that policy discounts were properly applied and 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 4 new or renewal group policies, it appears that each of the premium discounts was properly applied and approved by the Division.

Recommendations: None.

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#### 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.

M.G.L. c. 175, § 162I requires all persons who solicit, sell or negotiate insurance in the Commonwealth to be licensed for that line of authority. 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 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 Division's 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 earlier of 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 18 sales during the



examination period for testing. Eide verified that the Company's producer for each sale 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 10 exceptions Eide pulled for testing, from the total of 67 exceptions that were not otherwise explained by 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.

M.G.L. c. 175, § 162I requires that producers 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 as producer within

the earlier of 15 days from the date the producer's contract is executed, or 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 18 sales during the examination period for testing. Eide verified that the producer for each of the 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 state and the producer.

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

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.

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 selected all producers from the Company's records that were terminated during the examination period, and requested documentation supporting the reporting of the terminations to the Division.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company notifies producers of their termination 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.

<b>Standard IV-4. The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.</b>
--

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 selected a sample of 18 sales during the examination period for testing. Eide reviewed documentation for each sale, such as zip codes, for any evidence of unfair discrimination against policyholders as a result of the Company's policies regarding producer appointments and terminations. This testing is done in conjunction with inquiry and observation of practices to ensure that the Company is not excluding certain areas of the Commonwealth, which may be populated with lower income individuals or a concentration of a specific race, from the opportunity to obtain insurance from the Company.

Transaction Testing Results:

Findings: None.

Observations: Eide's testing noted no evidence of unfair discrimination against policyholders resulting from the Company's policies and procedures on 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, § 162T, the Company must notify the Division within 30 days of the effective date of a 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 exam 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 SERVICES

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

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

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

*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 required deposit for the monthly payment plan is tied to the customer's payment history.
- 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 requires that homeowners' policyholders receive a notice on which they can request coverage changes 52 days prior to the effective renewal date.
- Company policy requires that commercial policyholders receive a notice on which they can request coverage changes between 10 – 90 days prior to the effective renewal date.
- 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 not later than 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 18 policies issued or renewed during the examination period. The date the renewal letter for each policy 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 13 new or renewal homeowner policies tested for the exam period showed that billing notices for renewal policies were mailed 52 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 5 new or renewal commercial policies tested for the exam period showed that billing notices for renewal policies were sent 10-90 days before 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.

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 insureds 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. An example of a standard response is when a policyholder inquires about effective dates of their policy, status of their claim check, and other general information questions. An issue that could require additional review includes the policyholder's dispute of a claim amount after it has been adjusted, or had 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 response procedures with Company personnel, and reviewed correspondence in conjunction with underwriting and rating, policyholder service and claims standards.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review that general correspondence between the Company and policyholders related to underwriting and rating, policyholder service, and claims is timely and appropriately handled by the Company, in accordance with their policies and procedures.

Recommendations: None.

<b>Standard V-4. Claims history and loss information is provided to insured in timely manner.</b>
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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 the Company.
- 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, substantial losses, (such as losing an entire house), or major medical issues, both of which entail costs that take months to surface.
- The Company provides claims history and paid loss information directly to policyholders upon request.

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 policyholder inquiries on underwriting, rating, claims handling, complaints, or policyholder service.

*Recommendations:* None.

**Standard V-5. 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.**

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

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## 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.**

**Homeowners; 211 CMR 131.00; M.G.L. c. 111 §§ 189A-199B; M.G.L. c. 174A, § 6.**

**Workers Compensation; 211 CMR 110.00.**

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

Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 131.00 requires insurers to make available liability coverage for those homeowner policies in compliance with public health laws as stated in M.G.L. c. 111, §§ 189A-199B. M.G.L. c. 174A, § 6 describes the annual rate filing requirements related to the fire and marine lines of business. Pursuant to 211 CMR 110.00 any workers' compensation paper rates filings should be filed with the Division during normal business hours to the docket clerk in a timely manner.

*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 as required by M.G.L. c. 174A, § 6.
- The Company makes available liability insurance for homeowner policies in compliance with M.G.L. c. 111, §§ 189A-199B.
- The Company follows the rates, discounts, and guidelines set forth by the Workers Compensation Rating and Inspection Bureau ("WCRIB") when underwriting commercial policies in Massachusetts.
- The Company files rates annually as required by M.G.L. 174A, § 6.
- Policy rates, premiums and discounts are determined by past experience.

*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 13 homeowner policies issued or renewed during the examination period for testing of rates, classifications and premium discounts. Eide also selected 5 commercial policies for testing of rates, classifications, and experience modifiers. Eide verified that any applicable multi-coverage policies met statutory and regulatory requirements, and were supported by documentation. Eide also investigated the surcharges on the commercial policies, and ensured that they complied with statutory and regulatory requirements. In addition, Eide reviewed database information to ensure that sufficient underwriting information was available at the time of the underwriting decision.

Transaction Testing Results:

Findings: None.

Observations: Through examining available documentation of rates and surcharges applied, Eide believes that the Company is applying rates and surcharges in compliance with statutory 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.**

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

Pursuant to M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11, the insurer will furnish any requested rate information to the insured in a timely manner.

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, a letter is sent to the producer requesting the missing information, along with a checklist 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, and include 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 direct producers regarding new statutes and statutory changes.
- The Company communicates statutory changes or developments immediately, usually through e-mail.

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 that are utilized for new business, and found that they adequately meet the 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, Eide 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 continuing education and communication of statutory changes to producers substantiates that the producers are informed, and are thus providing the most up to date information to insureds.

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 Company's producer contracts and home office policies and procedures are designed to comply with statutory underwriting and rating requirements prohibiting 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: It appears from Eide's testing that the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with their policies, 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.**

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

Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted.

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

- The Company offers affinity group discounts, and annually files them with the Division.

- The Company provides discounts for certain groups in Massachusetts. The standard discount is 5% for standard employer groups, and 8% for employer groups with a favorable loss history. Alumni are also given the 8% discount. The Company also indicated that competitive force, such as two insurers pursuing the same employer group, may also play a role in the discount offered.
- Written Company underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges for all policies.
- The Company follows the rating and discounts outlined by the WCRIB to ensure compliance 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 underwriting process. Eide selected a sample of 13 homeowner policies issued or renewed during the examination period for testing of rate classifications, premium discounts and surcharges. Eide also selected 5 commercial policies for testing. Eide compared all affinity discounts included in the examined policies to the filed list maintained by the Division. Eide verified that any applicable multi-coverage premium discounts and commercial policy surcharges on the tested policies met statutory and regulatory requirements, and were supported by documentation.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 18 new or renewal policies, it appears that policy premiums, premium discounts and surcharges for multiple coverages are calculated in compliance 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 how the risk premium is calculated, and whether the assigned class codes are properly supported with adequate documentation.

The Commonwealth of Massachusetts has established the WCRIB to set the standards for rates and discounts provided in 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 its 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.

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 5 commercial 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 each policy, and recalculated the premiums to ensure compliance with the guidelines set forth by the WCRIB. Eide also examined documentation of premium audits performed to discover any trends of improper class code application, and ensured 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: Based on the results of Eide's testing of 5 new or renewal policies, it appears that risk premiums are calculated 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 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 its 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 5 commercial 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: It appears from Eide's testing of 5 new or renewal policies that expense multipliers are applied in compliance with statutory and regulatory requirements.

Recommendations: None.

<b>Standard VI-7. Verification of premium audit accuracy and the proper application of rating factors.</b>
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Objective: This Standard is concerned with the accuracy of premium audits performed on commercial policyholders. Specifically, it is concerned that the rates applied to payroll are appropriate for the class code, and that the designated class code is appropriate for the client's 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 its 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 policy.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 5 commercial 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 the insured. Finally, Eide examined 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 5 new or renewal policies that the premium audits performed are accurate and in accordance with statutory and regulatory requirements.

Recommendations: None.

<b>Standard VI-8. Verification of experience modification factors.</b>
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Objective: This standard is concerned with whether the Company applies experience modification discounts and factors determined by the WCRIB to policies.

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 its 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 policy.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 5 commercial 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 to the experience modification factor recorded on the WCRIB's website. For policies that did not have an experience modification factor included in the policy, we examined the WCRIB's website to ensure that they were not approved for the discount.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 5 new or renewal policies, it appears that the experience modification factors are appropriately applied and in accordance with statutory and regulatory requirements.

Recommendations: None.



#### **Standard VI-9. Verification of loss reporting.**

*Objective:* This standard is concerned that the Company maintains adequate loss information under commercial policies and is reporting losses on unit statistical reports to the National Council on Compensation Insurance (“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 its 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 policies 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 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 5 commercial policies issued or renewed during the examination period for testing of loss maintenance and reporting. Eide examined the loss history maintained by the Company for each policy and examined the reporting procedures utilized by the Company to report unit statistical data to the NCCI.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based on the results of Eide’s testing of 5 new or renewal policies, it appears that the loss reporting procedures are appropriately applied and timely forwarded to the NCCI in accordance with statutory requirements.

*Recommendations:* None.

#### **Standard VI-10. Verification of company data provided in response to the NCCI call on deductibles.**

*Objective:* This standard is concerned with the Company’s compliance with reporting deductibles to the NCCI. The NCCI 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 its 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 policies 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 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 5 commercial 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 5 new or renewal 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.**

**Homeowners; M.G.L c 175, §§ 4C and 95B.**

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

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 § 4C, no insurance company engaged in the writing of homeowners insurance shall take into consideration the race, color, religious creed, national origin, sex, age, ancestry, sexual orientation, children, marital status, veteran status, the receipt of public assistance or disability of the applicant when deciding

whether to provide, renew or cancel homeowners insurance. Pursuant 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.

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

- 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 18 policies covering all lines of insurance issued or renewed during the examination period for testing of evidence of any unfair discrimination in underwriting. All policies were compared to others with similar circumstances to ensure that discounts and surcharges were applied in a similar manner.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of the 18 policies written 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.**

**Homeowners; M.G.L. c. 175, §§ 99, 99A, 99B and 111H; 211 CMR 131.00.**

**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 states that such policy forms must be filed with the Division for approval prior to use. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and also are required to be filed with the Division's prior approval.

Pursuant to M.G.L. c. 175, §§ 99, 99A and 99B there are numerous disclosures and requirements that must be included on a standard fire policy. M.G.L c. 175, § 111H requires that any policy providing lead liability coverage shall be subject to rules and regulations set forth by the Commissioner and 211 CMR 131.00 prescribes requirements for the filing of lead liability coverage rates with the Division. 211 CMR 113.00 states that every insurer writing workers compensation policies must offer reasonably small deductibles as an optional endorsement. Specifically 211 CMR 113.00 states that endorsements including per claim deductibles in the amounts of \$500, \$1000, \$2,000, and \$2,500 and an aggregate deductible in the amount of \$10,000 shall be offered to every employer. 211 CMR 115.00 prescribes the conditions under which insurers in Massachusetts may underwrite large deductible worker compensation policies

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

- The Company utilizes industry standard forms for homeowners insurance, and has all forms and endorsements approved by the Division prior to their use.
- The Company utilizes industry standard forms for commercial policies, and includes all disclosures required by the WCRIB.

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 18 policies covering all lines of insurance written or renewed during the examination period for testing of the use of the standard policy form 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 18 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 3 of the 5 commercial policies indicated that they offered reasonably small deductibles as prescribed by 211 CMR 113.00. Examination of 2 of the 5 commercial 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 Company 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.
- The Company determines policy rates, premiums, and discounts by past experience, and such rate information is submitted annually to the Division on a timely basis.
- 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 18 policies covering all lines of insurance issued or renewed during the examination period for testing of whether policy underwriting, rating and classification is based on adequate information developed at or near inception of the coverage. Discounts and surcharges given were traced to source documentation provided by producers. In addition, Eide reviewed database information, including correspondence from the applicant and documentation made by sales representatives reflecting conversations or inquiries, 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.

*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 and support for discounts applied.

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

- Written Company policies and procedures are designed to reasonably assure that required information is obtained and maintained by either the Company or its producers.
- The Company educates producers through various means including on-site training, online information and written guidelines.
- The Company determines policy rates, premiums, and discounts by past experience, and such rate information is submitted annually to the Division on a timely basis.
- The Company relies on the WCRIB to determine experience modification factors as well as to determine 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 18 new or renewal policies covering all lines of business issued or renewed during the examination period for testing of whether adequate documentation exists to support underwriting decisions.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Eide's examination of 18 new or renewal policies indicated that the decisions made by the Company are adequately documented and supported in the file.

*Recommendations:* None.

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

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

*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 prior to their use.
- Producers are required to use such forms and endorsements as guidelines when providing quotes to consumers at the time of application.
- The policyholder receives a renewal notice from the Company 52 days prior to the effective date of the renewal homeowner policy, asking them to request changes in coverage.
- The policyholder receives a renewal notice from the Company 10 to 90 days prior to the effective date of commercial policy renewals, asking them to request changes in coverage. The average renewal notice is received 30 days prior to the effective renewal 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 the underwriting process. Eide selected a sample of 18 new or renewal policies covering all lines of business issued or renewed during the examination period for testing of 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.

<b>Standard VI-17. Audits when required are conducted accurately and timely.</b>
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Objective: This Standard is concerned with premium audits being performed correctly and timely on commercial policies when they are 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 its 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 performs a premium audit within 75 days of the effective date for new 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 underwriting process. Eide selected a sample of 5 policies issued or renewed during the examination period for testing of whether the audits performed appeared accurate, and the audit findings 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. The Company also appeared 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.**

No work performed. The Company does not underwrite private passenger automobile policies in Massachusetts.

**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 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, 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:

- Homeowner premium rates are determined annually by the Company using past loss history. The Company submits the rate filings to the Division for approval prior to use.



- Commercial rates are determined biannually by the WCRIB, and are consistent among all commercial insurers. As such, anti-trust pricing concerns are minimized for commercial 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 18 policies covering all lines of business issued or renewed during the examination period for testing whether any underwriting practices appear to be 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 testing, Eide noted no instances where the Company's underwriting policies and practices appear to be 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 with whether the Company's underwriting practices are unfairly discriminatory and 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 insurance is afforded to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

Controls Assessment: The following 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 to assure that underwriting practices are not unfairly discriminatory.
- The Company provides the same discount of between 5-8% for each member of any 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 18 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 18 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 rate deviations are allowed but the Company must not offer rates higher than the same rate in the individual market. The Company can only cancel an individual member of the group for fraud or non-payment of premium, and must maintain group loss history for the first 3 years of existence to justify any deviations from what is prescribed by the section.

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

- The Company annually updates its group listing approved by the Division.
- The Company has procedures in place to ensure that ensured 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 13 homeowner policies issued or renewed during the examination period for testing whether group policies are properly approved at the same rates offered in the individual market. Of the 13 policies, 4 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, and that the base rates were non-discriminatory.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 4 new and renewal group homeowner policies, it appears the Company's group policy underwriting procedures are in compliance with statutory and regulatory requirements.

Recommendations: None.

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

**M.G.L. c. 175, § 193T.**

**Homeowners; M.G.L. c. 175, §§ 4C and 95B.**

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, § 95B, discrimination against abuse victims is prohibited in the course of underwriting property insurance. M.G.L. c. 175, § 4C prohibits inappropriate non-discrimination in cancellations and non-renewals.

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.**

**Homeowners; M.G.L. c. 175, §§ 99 and 193P.**

*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, § 99 there are numerous disclosures and requirements that must be included on a standard fire policy. 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. According to M.G.L. c. 175, § 193P, a minimum of 45 days written notice to a policyholder stating the applicable reason is required to non-renew a homeowner fire policy. M.G.L. c. 175, § 193R allows cancellation of an individual policy 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:

- The Company usually gives commercial policyholders a minimum 30 days notice of non-renewal.
- The Company does not send reminder notices prior to cancellation.
- The Company gives homeowner policyholders a minimum 45 days written notice of non-renewal.
- The Company follows the timeline below for homeowners insurance:
  - The billing notice is sent 20 days prior to the premium due date.
  - If no payment is received, 11 days after the premium due date an overdue notice is sent.
  - If no payment is received, 31 days after the premium due date a cancellation notice is sent.
  - The cancellation is effective 49 days after the premium due 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 the underwriting process. Eide selected a sample of 18 policies from all lines of business issued or renewed during the examination period for underwriting testing. None of the 18 policies examined were cancelled or non renewed. Eide verified that the cancellation form used was the standard approved form.

*Transaction Testing Results:*

*Findings:* None

Observations: Based on the results of the sample tested, the Company appears to be in compliance with statutory requirements related to notice of policy cancellations, non-renewals and declinations.

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.**

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.**

Objective: This Standard is concerned with properly calculating and returning unearned premium when policies are cancelled in a timely manner.

Pursuant to M.G.L. c. 175, § 187B, a company is required to refund 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.

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.
- Upon receipt of cancellation evidence, a cancellation memorandum noting the date of cancellation and the amount of returned premium is issued for the insured's requested cancellations.

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 18 policies from all lines of business issued or renewed during the examination period for underwriting and rating testing. None of the 18 policies were cancelled or non renewed during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based on Eide's inquiries and review of the policies established by the Company, it appears that the Company returns unearned premium in a timely fashion when cancellations occur, in compliance with statutory and regulatory requirements.

Recommendations: None.

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

**M.G.L. c. 175, §§ 22C and 187D.**

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

M.G.L. c. 175, § 187D allows cancellation of policies 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 18 policies from all lines of business issued or renewed during the examination period for underwriting and rating testing. None of the 18 policies were cancelled during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based on Eide's inquiry and review of the policies established by the Company, cancellations appear to be made in compliance with regulatory and 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 which 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.
- 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 that may arise when a policy is initially coded.

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 sufficient controls are in place to ensure that statistical reports are completed accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: Through testing performed on the 18 selected policies from the examination period, 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:* The 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 to govern the claims handling process.
- The Company primarily uses claim adjusters that are Company employees, but will contract with independent adjusters when the workload exceeds the capabilities of the Company employees, or when specialized experience is needed.
- The Company typically receives homeowner and commercial claims via phone, but insureds have the option to submit 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.
- Claims management personnel can access the claims system to monitor open claims.
- Quality Control Reviews are conducted monthly by team managers and supervisors recommendations are drafted for any findings and implemented as soon as possible.
- 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

*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 30 claims paid or closed without payment during the examination period to test for 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 its initial response was made in a timely manner according to applicable statutes and Company procedures.

Transaction Testing Results:

Findings: None.

Observations: The results of Eide's testing appear to show the timely reporting and processing of claims in accordance with Company policies and procedures and applicable statutes.

Recommendations: None.

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

**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 to govern the claims handling process.
- The Company primarily uses claim adjusters that are Company employees, but will contract with independent adjusters when the workload exceeds the capabilities of the Company employees or when specialized experience is needed.
- Claims are typically received via phone for both homeowner and commercial policies, but insureds do have the option to submit a claim via fax or mail if desired.
- 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.
- Claims management personnel can access the claims system to monitor open claims.
- Quality Control Reviews are conducted monthly by team managers and supervisors recommendations are drafted for any findings and implemented as soon as possible.
- 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.

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 30 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 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 that all paid or closed without payment claims tested were reported 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 for reporting and investigating 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.**

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.

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 claims handling process.
- The Company primarily uses claim adjusters that are Company employees, but will contract with independent adjusters when the workload exceeds the capabilities of the Company employees or when specialized experience is needed.
- Claims are typically received via phone for both homeowner and commercial policies, but insureds do have the option to submit a claim via fax or mail if desired.
- 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.
- 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 claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 30 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 each selected claim was reported to the Company, and whether it was resolved in a reasonable and timely manner.

Transaction Testing Results:

Findings: None.

Observations: Eide noted whether each claim selected for testing was handled and adjudicated according to the Company's policies and procedures, and resolved in a timely manner. Eide further verified the date each selected claim was reported to the Company, and noted whether it was resolved in a reasonable and timely manner. Of the 30 claims

tested, 21 were closed claims paid within a reasonable time, 5 were closed without payment, 2 were open as of fieldwork testing with no payment, and 2 claims were dropped by the claimant. The 5 claims closed without payment were either due to the insured's failure to provide information needed by the Company, or the claimant neglected to go to the doctor, despite multiple notices from the company of the need to do so. The 2 claims open with no payment were workers compensation claims that involved ongoing litigation relating to a payment dispute, and a lien for child support. The 2 withdrawn claims were homeowners' policies withdrawn because of the low claim amount after deductible. Based upon the results of Eide's testing, it appears that the Company's processes for resolving claims timely are functioning in accordance with their policies and procedures, as well as with 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 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 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 30 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 each selected claim was reported to the Company, and noted whether it timely responded to claims correspondence.

Transaction Testing Results:

Findings: None.

Observations: Based upon the results of Eide's testing, it appears that the Company has reasonable processes for timely responding to claims correspondence that are functioning in accordance with their policies and procedures, and are in compliance with applicable statutes and regulations.

Recommendations: None.

**Standard VII-5. Claim files are adequately documented.**

**Homeowners: M.G.L. c. 175, §§ 97 and 102.**

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

Per M.G.L. c. 175, § 97, the Company shall pay, upon satisfactory proof of the rights and title, all mortgagees protected by fire insurance policies for the amount the Company is liable under the policy. Per M.G.L. c. 175, § 102, if the Company requires the insured to render a sworn statement, and the insured fails to do so, such failure does not preclude recovery under the policy.

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:
  - Notice of loss with relevant accident date, accident description, and involved parties.
  - Relevant reports from investigating police authorities.
  - Applicable medical reports and other investigative correspondence.
  - Other pertinent written communication.
  - All legal correspondence.
  - 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 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 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 30 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 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 and complied with applicable statutes and regulations.

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 113J and 193K.**

**Homeowners: M.G.L. c. 175, §§ 22B, 96, 97A and 113O. M.G.L. c. 139 § 3B; 211 CMR 75.00**

**Workers Compensation: 211 CMR 112.00.**

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

Per M.G.L. c. 139, § 3B no insurer shall pay any claims equal to or greater than one thousand dollars without having at least ten days previously given written notice to the building commissioner or inspector. Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear as an unfair trade practice.

Per M.G.L. c. 175, § 22B waiver provisions are prohibited in insurance contracts except as expressly provided. M.G.L. c. 175, § 22I allows companies to retain unpaid premium due from claim settlements. Claim payments must also comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, §§ 111F and 113J. 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 claim 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 also 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.

M.G.L. c. 175 § 96 limits the liability of an insurer to the actual value of a building when completely destroyed by fire. M.G.L. c. 175 § 97A requires the insurer to obtain a certificate of municipal liens before paying any homeowners loss exceeding \$5,000.

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 to govern the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions, state law and regulation.
- 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 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 30 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 whether each selected claim was handled in accordance with applicable policy provisions, and statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: It appears that the Company's processes for handling claims in accordance with policy provisions, as well as 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.**

Objective: The Standard is concerned with the Company's usage of reservation of rights letters and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits.

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

- Written Company policies and procedures govern the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Company policy limits each claim adjuster's settlement authority to a sliding dollar amount tied to their experience. Claims exceeding these limits require additional approval before settlement.
- The Company uses reservation of rights and excess of loss letters when circumstances warrant.
- Claims managers perform periodic claims reviews throughout each calendar year to examine the Company's compliance with its claims policies.



Transaction Testing Procedure: Eide interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 30 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 files for each selected claim to note whether the Company sent reservation of rights or excess loss letters when warranted.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all paid and closed without payment claims selected for testing were reported and investigated according to the Company's policies and procedures, and that claim file documentation appeared adequate.

Recommendations: None.

<b>Standard VII-8. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.</b>
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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 are reviewed for subrogation potential, and cases with potential recovery are sent to 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 throughout each calendar year to examine the Company's compliance with its 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 30 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 subrogation recoveries were timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that subrogation recoveries for all paid and closed without payment claims selected for testing were timely and accurate 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 for making subrogation recoveries to insureds are functioning in accordance with their policies and procedures.

Recommendations: None.

<b>Standard VII-9. Company claim forms are appropriate for the type of product.</b>
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Objective: The Standard is concerned with the Company's use 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:

- Company 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 involved parties.
- The Company's policy is to use mandated claims 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 the Company's compliance with its 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 30 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 the claim reporting was appropriate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted whether all selected claims paid or closed without payment 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 for documenting 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:

- Written Company policies and procedures govern the claims handling process.
- Company policy is to timely evaluate and establish adequate reserves on all reported claims.
- 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.
- 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 reserving processes, and obtained documentation supporting such processes. Eide selected a total sample of 30 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 financial examination workpapers to provide support for the adequacy of reserving.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that reserves for each selected claim were 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 include the contractual basis for non-payment, and inform the claimant of their right to appeal, including the timeframe and specific steps necessary to do so.
- All claim notifications are maintained on a mainframe based automated claims management system.
- Claims management can access the claims system to monitor open claims.
- The Company provides a written explanation of all denied claims and closed-without-payment claims to the 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 30 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 each 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:* Of the 30 claims tested, 21 were closed claims paid within a reasonable amount of time, 5 were closed without payment, 2 were open as of fieldwork testing with no payment, and 2 claims were dropped by the claimant. The 5 claims closed without payment were either due to the insured's failure to provide requested information, or the claimant neglected to go to the doctor, despite multiple notices from the company of the need to do so. The 2 claims open with no payment were due to the claim involving

ongoing litigation. The 2 withdrawn claims were both homeowner policies withdrawn because of the low claim amount after deductible. Based upon the results of Eide's testing, it appears that the Company's processes for timely resolving claims are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements. It further appears that the Company's processes do not unreasonably deny or delay payment of claims.

Recommendations: None.

<b>Standard VII-12. Cancelled benefit checks and drafts reflect appropriate claim handling practices.</b>
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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:

- Written Company policies and procedures govern 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 the Company's compliance with its 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. 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 reports all 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 30 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 company claim payment practices were appropriate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each claim selected for testing 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 for issuing claim payment checks are appropriate, and are 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:

- Company claims handling guidelines require the uniform and consistent handling of claim settlements and payments.
- The Company has an easy to access telephone complaint line that any customer may utilize if they feel there is a delay in the processing of a claim.
- Claims management personnel can access the claims system to monitor open claims.
- Claims managers perform periodic claims reviews throughout each calendar year to examine the Company's compliance with its claim 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 30 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 claim was reported, reviewed correspondence and investigative reports, and noted whether the Company handled the claim timely and properly.

Transaction Testing Results:

Findings: None.

Observations: Documentation for selected claims involving litigation appeared complete, and the Company's conclusion properly supported. 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).**

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, and the rating system on file with the Commissioner. The Commissioner may designate a rating agency or agencies to assist in the compilation of such data.

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

- Company policy is to timely report accurate and complete loss data to appropriate rating bureaus.
- Claims management personnel reconcile the underlying data for completeness and accuracy, and generate exceptions reports to ensure that 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 statistical loss data to rating bureaus timely and accurately, and its processes function in accordance with their policies and procedures, as well as with statutory and regulatory requirements.

Recommendations: None.

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

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Director of Market Conduct &  
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Commonwealth of Massachusetts  
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