



THE COMMONWEALTH OF MASSACHUSETTS

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

Division of Insurance

Report on the Comprehensive Market Conduct Examination of

Massachusetts Homeland Insurance Company

Canton, Massachusetts

For the Period January 1, 2006 through June 30, 2007

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

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

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

DANIEL O'CONNELL
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

DANIEL C. CRANE
DIRECTOR

NONNIE S. BURNES
COMMISSIONER OF INSURANCE

October 24, 2008

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

Dear Commissioner Burnes:

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

MASSACHUSETTS HOMELAND INSURANCE COMPANY

at its home office located at:

One Beacon Lane
Canton, Massachusetts 02021

The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination of Massachusetts Homeland Insurance Company (“the Company”) for the period January 1, 2006 to June 30, 2007. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, Section 4. The 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 Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2006 NAIC Market Regulation Handbook*, (“the Handbook”) the market conduct examination standards of the Division, the Commonwealth of Massachusetts insurance laws, regulations and bulletins and selected federal laws and regulations. All procedures were performed under the management and control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination of the Company. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division’s financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

The basic business areas that were reviewed in 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 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 and regulations 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 15 Section A. of the Handbook.

EXECUTIVE SUMMARY

This summary of the comprehensive market conduct examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, tests conducted, findings and observations, recommendations and, if applicable, subsequent Company actions. Managerial or supervisory personnel from each functional area of the Company have been advised to review report results relating to their specific area.

The Division considers a substantive issue as one in which corrective action by 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 also is recommended that Company management evaluate any substantive issues or “findings” for applicability to potential occurrence in other jurisdictions. When applicable, corrective action should be taken for all jurisdictions, and a report of any such corrective action(s) taken should be provided to the Division.

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 the Company. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division’s website at www.mass.gov/doi.

The comprehensive market conduct examination resulted in no findings or negative observations with regard to company operations/management and policyholder service. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these sections.

SECTION II – COMPLAINT HANDLING

STANDARD II-2

Findings: None.

Observations: It appears from the complaints reviewed that the Company has adequate procedures in place to address complaints, and adequately communicates such procedures to policyholders. The Company is in the process of enhancing its complaint monitoring and trending capabilities.

Recommendations: The Company should complete the enhanced complaint monitoring and trending reporting process and timely implement its use.

SECTION III - MARKETING AND SALES

STANDARD III-1

Findings: None.

Observations: The results of RNA's testing showed that the Company's advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3. The standard agency contract contains the requirement to obtain home office approval prior to use of agent-developed advertising material. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02. However, the Company has not retained internal approval of the three advertising materials used during the examination period.

Recommendations: The Company should adopt a written policy and procedure, which requires that approvals from corporate communications, the legal department and the business line manager are obtained before marketing materials are published. Further, the written policy and procedures should require that this documentation be retained by the Company as long as the materials are in use.

Subsequent Actions: The Company has implemented the recommendations noted above.

SECTION IV - PRODUCER LICENSING

STANDARD IV-1

Findings: None.

Observations: Based on the results of RNA's testing of 55 private passenger automobile policies issued or renewed during the examination period, all of the producers who sold policies during the examination period were properly licensed. All but five producers were either included on the Division's list of the Company's appointed agents or were ERPs assigned to the Company by CAR at the time the policies were issued. The five non-ERPs were not appointed as agents at the time the policies were issued. Subsequently, the Company appointed the five non-ERP producers as agents.

Recommendations: The Company should implement a control procedure during underwriting to ensure that all non-ERP producers are appointed as agents prior to selling business. Further, the Company and the Division shall complete a reconciliation of the Company's agent appointments at a mutually agreed upon date, to ensure that such appointment records are in agreement.

Subsequent Actions: The Company states that it is now appointing all non-ERP producers as agents within the required time frame.

SECTION VI - UNDERWRITING AND RATING

STANDARD VI-8

Findings: Based on the results of testing, the Company appears to generally comply with the 20 day prior notice requirement for company-initiated private passenger automobile cancellations and non-renewals. However, one of the company-initiated cancellation notices was provided with only 19 days notice.

Observations: None.

Recommendations: The Company shall adopt new control procedures to ensure that its private passenger automobile cancellation notices comply with statutory requirements.

Subsequent Actions: The Company has subsequently adopted new control procedures to ensure that its private passenger automobile cancellation notices comply with statutory requirements.

STANDARD VI-26

Findings: None.

Observations: Numerous errors were noted in the 2005 CAR audit report of the Company's 2003 activity, and the 2007 CAR audit report of its 2005 activity. Some common errors were reported in both years. The Company states that it made changes to its premium statistical reporting methodology due to the issues identified during 2003, which were reflected in the 2005 CAR audit report; however, some of the results of such changes were not yet evident in 2005, as documented in the 2007 CAR audit report. Some of the errors noted included vehicle premium statistical errors related to zip codes, discounts, mileage codes, and transaction codes. The Company states that it began converting its private passenger automobile business to an underwriting system managed by an outside vendor. With this conversion, the Company states that it has been able to make significant progress addressing the errors in the CAR audit report regarding 2005 activity. In addition, the Company states that it receives daily error reports, which allow it to identify and correct individual policy errors.

Recommendations: The Company's internal audit function, together with the business information services department, shall conduct a review and evaluation of the new computer logic and procedures to ensure that controls over coding and statistical reporting are effectively designed and properly implemented. The Company shall periodically update the Division, as requested, on these results of the audits.

SECTION VII – CLAIMS

STANDARD VII-6

Findings: The Company responded to eight of nine written requests for an insured's policy limits within 30 days, as required pursuant to M.G.L. c. 175, § 112C.

Observations: RNA noted that the tested claims were properly handled according to the Company's policies and procedures, and that the claim files were handled in accordance with policy provisions. When required, the Company properly verified that claim recipients were not subject to the intercept requirements in M.G.L. c. 175, §§ 24D, 24E and 24F, prior to making the claim payment.

RNA verified that the Company has procedures in place for providing claimants with a list of registered repair shops, as well as repair shops that qualify as a referral shop, as required by 211 CMR 123.00. Further, RNA noted that the Company performs re-inspections of repaired vehicles following completion of repairs, as required by 211 CMR 123.00.

Based upon the results of testing, it appears that the Company's processes for handling claims in accordance with policy provisions, statutory and regulatory requirements are generally functioning in accordance with its policies and procedures.

Recommendations: The Company should ensure that it responds to all written requests for an insured's policy limits within 30 days, pursuant to M.G.L. c. 175, § 112C.

Subsequent Actions: The Company states that it has provided training to adjustors regarding the need to respond to all written requests for policy limits.

STANDARD VII-14

Findings: None.

Observations: Numerous errors were noted in the 2005 CAR audit report of the Company's 2003 activity, and the 2007 CAR audit report of its 2005 activity. Some common errors were reported in both years. The Company states that changes were made to its claim statistical reporting methodology due to the issues identified in 2003, which were reflected in the 2005 CAR audit report; however, some of the results of such changes were not yet evident in 2005 as documented in the 2007 CAR audit report. Some of the errors noted included claim accident location, claim number, claimant type and claim type. The Company has identified the root causes of the statistical errors and will be developing computer logic changes to correct these errors.

Recommendations: The Company shall complete the development of the computer logic changes to correct statistical errors noted in the CAR audit reports. Further, the Company's internal audit function, together with the business information services department, shall conduct a review and evaluation to ensure that controls over coding and statistical reporting are effectively designed and properly implemented. Lastly, the Company shall periodically update the Division, as requested, on progress of the implementation efforts and on the results of the audits.

COMPANY BACKGROUND

The Company is a wholly-owned subsidiary of OneBeacon Insurance Company (“OneBeacon”), a Pennsylvania domestic insurance company. OneBeacon is a wholly-owned subsidiary of OneBeacon Insurance Group LLC (“OBLLC”), an insurance holding company domiciled in Delaware. OBLLC is an indirect wholly-owned subsidiary of OneBeacon Insurance Group, Ltd. (“OB”), a publicly traded insurance holding company domiciled in Bermuda. White Mountains Insurance Group, Ltd., also an insurance holding company domiciled in Bermuda, is the ultimate controlling entity indirectly owning 74.5% of the outstanding common shares of OB as of December 31, 2007, representing 96.7% of the voting power of a combined two-class common stock structure. The One Beacon Companies are rated “A” (“Excellent”) by A.M. Best.

The Company writes private passenger automobile in Massachusetts only. Other lines of business are sold through affiliated insurance companies within OB. The Company and OneBeacon contract with approximately 150 independent agencies in Massachusetts including approximately 20 Exclusive Representative Producers (“ERPs”) assigned to them by Commonwealth Automobile Reinsurers (“CAR”). The ERPs write exclusively for the Company, primarily in urban areas, and can not be terminated by the Company.

Historically, the private passenger automobile market in Massachusetts has been highly regulated, characterized by mandatory coverage minimums, uniform rates set by the Division, a requirement for carriers to accept all risks, and uniform coverages. Rate deviations are allowed via discounts to affinity groups as approved by the Division. Further, individual risks as determined by the carriers can be ceded to CAR. All licensed automobile insurance carriers in Massachusetts are also required to participate in the CAR reinsurance facility. Each licensed automobile insurance carrier is allocated a share of the CAR pooled operating results and accumulated deficit, in proportion to its voluntary market share. The Massachusetts private passenger automobile market is changing to a managed competition market where companies will file rates for the Division’s approval, and where an assigned risk plan will be adopted. These changes are not effective until after the period covered by this examination.

The Company had \$9.8 million in admitted assets and in surplus as of December 31, 2006. For the year ended December 31, 2006, the Company’s direct written premium was \$125.2 million, which was ceded to Company affiliates. Net income for 2006 was \$174,692. The Company does not directly employ any individuals. Rather, the Company reimburses OB for the Company’s portion of shared services incurred by OB including staffing costs.

The key objectives of this examination were determined by the Division with emphasis on the following areas.

I. COMPANY OPERATIONS/MANAGEMENT

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

Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.
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Objective: This Standard addresses whether there is an audit program function that provides meaningful information to management.

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

- The Company's statutory financial statements and OB's financial statements are audited annually by an independent accounting firm.
- OB's internal audit department reports to the OB Board of Directors' Audit Committee.
- OB's internal audit plan is based on priorities established by the Audit Committee, with input from senior management. The Audit Committee approves the plan for the following year prior to year end, and monitors plan progress and implementation results periodically throughout the year.
- OB's internal audit department conducts periodic audits of various operational areas to ensure compliance with OB and Company policies and procedures, and recommends enhancements to such policies and procedures.
- OB's claim department performs monthly branch self-audits, whereby claims processed are reviewed and evaluated for adherence to OB and Company policies and procedures. Further, OB's home office claims management conducts quality control audits to evaluate settlement practices by reviewing bodily injury settlements, liability claims and material damage claims.
- OB's underwriting department conducts quarterly peer reviews of each underwriter's business. In addition, the home office underwriting management conducts quality control audits every 18 months.
- OB conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.
- The Company's underwriting department conducts annual field audits of all its ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules of Operation ("CAR Rules"). Participation in CAR is mandatory for all insurers writing private passenger automobile insurance 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: RNA reviewed various internal audit reports, claims department branch self-audits, home office claims quality control audits, underwriting department peer reviews, home office underwriting quality control audits and CAR audits to evaluate procedures performed and results obtained.

Transaction Testing Results:

Findings: None.

Observations: The internal audit reports, claims department branch self-audits, home office claims quality control audits, underwriting department peer reviews, home office underwriting quality control audits and CAR audits reviewed by RNA provided detailed information on the procedures performed, audit findings and recommendations for improvement. The review of these audits indicated that the Company is generally in compliance with policies, procedures and regulatory requirements. See Standard VI-26 and VII-14 with regard to CAR audit results.

Recommendations: None.

Standard I-2. The regulated entity 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 regulated entity has anti-fraud 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 addresses whether the Company has an anti-fraud plan that is adequate, up-to-date, in compliance with applicable statutes and is appropriately implemented.

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 (“Act”), 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 breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts must notify the Division in writing of all employees and producers 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:

- OB and the Company have a written plan to address fraud throughout the organization.

- OB and the Company have a Special Investigative Unit (“SIU”) within the claim department, which is dedicated to the prevention and handling of fraudulent activities.
- The SIU does not distinguish between claims in which the insured’s policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- The SIU has written policies, guidelines and procedures to address claim fraud prevention.
- OB and the Company adhere to SIU standards established by CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The SIU tracks and investigates potentially fraudulent activity with the assistance of other departments, and reports such activity to regulators as required.
- OB’s and the Company’s policy is to seek the Division’s approval regarding the hiring of any “prohibited person” when it wishes to employ such a person.
- The Company does not directly employ any individuals, since it reimburses OB for its portion of shared services including staff. Beginning in 2000, the OB began conducting criminal background checks on 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: RNA reviewed the anti-fraud policies and procedures and the work of the SIU as part of various claims standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA’s review of policies and procedures, it appears that anti-fraud initiatives are in place to detect, prosecute, and prevent fraudulent insurance acts.

Recommendation: None.

<p>Standard I-4. The regulated entity has a valid disaster recovery plan.</p>
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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. Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, MGAs, GAs, TPAs and management agreements must comply with applicable licensing requirements, statutes, rules and regulations.

No work performed. OB and the Company do not utilize MGAs or TPAs; therefore this standard is not applicable to this examination.

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

No work performed. OB and the Company do not utilize MGAs or TPAs; therefore this standard is not applicable to this examination.

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

Objective: This Standard addresses the organization, legibility and structure of files, as well as the determination of the Company's compliance with record retention requirements.

Controls Assessment: OB and the Company have established written record retention policies and procedures for each key function and department which note the time that specific documents must be retained.

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: RNA reviewed OB's and the Company's record retention policies and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: OB and the Company's record retention policies appear reasonable.

Recommendations: None.

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

M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard addresses whether the lines being written by a Company are in accordance with the authorized lines of business.

Pursuant to M.G.L. c. 175, § 32, domestic insurers must obtain a certificate authorizing it to issue policies or contracts. M.G.L. c. 175, § 47 sets forth the various lines of business for which an insurer may be licensed.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the Company's Certificate of Authority and compared it to the lines of business which the Company writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 4.

Objective: This Standard addresses the Company's cooperation during the course of the examination.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 Code of Federal Regulations (“CFR”) Part 313.

Objective: This Standard addresses the Company’s policies and procedures to ensure it minimizes improper intrusion into the privacy of consumers.

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 information about consumers 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 non-public 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 disclosure.

Controls Assessment: The following key observations were noted in conjunction with the review of Standards I-10 through I-17:

- The Company’s practice is to provide the initial privacy notice on the policy application.
- The Company’s privacy policy states that it collects certain types of non-public personal information from third parties or other sources, and gives examples of such third parties or other sources. The privacy policy further notes that the Company may disclose information as permitted by law and that consumers have rights to access and to correct inaccuracies in this information.
- The Company’s privacy policy states that it does not disclose any non-public personal information to any affiliate or non-affiliated third party for marketing purposes, and discloses non-public personal information only for the purpose of processing and evaluating consumers’ insurance applications or claims.
- The Company annually provides the privacy policy to customers via mail upon renewal.
- The Company provides its privacy policy on its website.
- The application for personal lines insurance notes that the Company’s normal underwriting procedures may include obtaining an investigative consumer report with applicable information on an applicant’s character, general reputation, personal characteristics and mode of living. The application further discloses that the Company may obtain this information through personal interviews with the applicant’s friends, neighbors and associates, and that it will provide additional detail concerning the nature and scope of this investigation to applicants within a reasonable time upon receiving a written request.
- The Company annually conducts an information systems risk assessment to consider, document and review information security threats and controls. The risk assessment evaluations have resulted in continual improvements to information systems security.
- Company policy requires that its information technology security practices safeguard non-public personal and health information, and communicates these practices to all staff in training programs, compliance presentations and various memoranda as needed. Company policy also requires all staff to take annual privacy training, and to sign an acknowledgement that they have taken such training.

- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal and health information is located. Access is frequently and strictly monitored.

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: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's privacy practices minimize any improper intrusion into applicants' and policyholders' privacy, and are disclosed to policyholders in accordance with the Company's policies and procedures.

Recommendations: None.

Standard I-11. The regulated entity has 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.

The objective of this Standard relates to privacy matters and is included in Standards I-10 and I-12 through I-17.

Standard I-12. The regulated entity has policies and procedures to protect the privacy of non-public 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 addresses the Company's policies and procedures to ensure it protects the privacy of non-public personal 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 information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with an annual notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing non-public 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 disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's policies and procedures adequately protect consumers' non-public personal information.

Recommendations: None.

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

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

Objective: This Standard addresses the Company's practice of providing privacy notices to customers and consumers.

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 consumers' non-public personal information to nonaffiliated third parties. Further, a financial institution must provide its customers with an annual written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing consumers' non-public personal 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 disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation its supporting privacy policies and procedures and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 55 private passenger automobile policies issued or renewed during the examination period to test whether the privacy notice provided sufficient information.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's privacy notice and its privacy practices, it appears that the Company provides a sufficient privacy notice to

applicants and to policyholders regarding its collection and disclosure of non-public personal financial information, in accordance with Company policy.

Recommendations: None.

Standard I-14. If the regulated entity discloses information subject to an opt out right, the company has policies and procedures in place so that non-public 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.

No work performed. The Company does not utilize opt out rights as it does not share information with others for marketing purposes; therefore, this standard is not applicable to this examination.

Standard I-15. The regulated entity's collection, use and disclosure of non-public 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 addresses the Company's policies and procedures regarding collection, use and disclosure of non-public personal financial 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 consumers' non-public personal information to nonaffiliated third parties. Further, a financial institution must provide its customers with an annual written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing consumers' non-public personal 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 disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. Based upon underwriting and claims testing procedures, RNA looked for any evidence that the Company improperly collected, used or disclosed non-public personal financial information.

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses non-public personal financial information.

Recommendations: None.

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

Objective: This Standard addresses the Company's policies and procedures to ensure it maintains privacy of non-public personal health information related to claims.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures related to claims. In conjunction with claims testing, RNA looked for evidence of improper use and maintenance of use non-public personal health information.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's policies, procedures and liability claims, it appears that such policies and procedures provide reasonable assurance that the Company maintains the privacy of non-public personal health information related to claims.

Recommendations: None.

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

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

Objective: This Standard addresses the Company's information security efforts to ensure that non-public consumer information is protected.

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 consumers' non-public personal information to nonaffiliated third parties. Further, a financial institution must provide its customers with an annual written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing consumers' non-public personal 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 disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's information security policies and procedures, it appears that the Company has implemented an information security program which provides reasonable assurance that its information systems protect non-public customer information.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

II. COMPLAINT HANDLING

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

Standard II-1. All complaints are recorded in the required format on the regulated entity 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 all complaints it received from 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 to process each complaint.

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

- Written Company policies and procedures govern the complaint handling process.
- The Company logs all written complaints in the complaint register in a consistent format.
- The complaint register includes the date received, the date closed, the person making the complaint, the insured, the policy number, state of residence, the nature of the complaint and the complaint disposition.
- The Company's policy is to respond to Division complaints within 14 calendar days of receipt when possible, and in a timely manner once it receives and evaluates all required information.
- The Company provides a telephone number and address in its written responses to consumer inquiries and on its web site.
- The Company generally monitors complaint activity and trends.

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: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 16 Massachusetts complaint files from the examination period to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10), and noted the response date and the documentation supporting the resolution of each complaint. RNA also compared the Company's complaint register to the Division's complaint records to ensure that the Company's records were complete.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's format for recording the complaints reviewed included all necessary information. Based upon the results of testing, it appears that the Company's processes for recording complaints in the required format are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard II-2. The regulated entity 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.

M.G.L. c. 176D, § 3(10) requires 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 in areas developing complaints; (c) there is a method for distribution of and obtaining and recording responses 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: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 16 Massachusetts complaint files from the examination period to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10). RNA also reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

Transaction Testing Results:

Findings: None.

Observations: It appears from the complaints reviewed that the Company has adequate procedures in place to address complaints, and adequately communicates such procedures to policyholders. The Company is in the process of enhancing its complaint monitoring and trending capabilities.

Recommendations: The Company should complete the enhanced complaint monitoring and trending reporting process and timely implement its use.

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

Objective: This Standard addresses whether the Company response to the complaint fully addresses the issues raised, is properly documented, includes appropriate remedies and complies with statutes, regulations and contract language.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 16 Massachusetts complaint files from the examination period to evaluate the Company's actions related to complaint disposition.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints reviewed. Documentation for the complaints appeared complete, including the original complaint, related correspondence and the Company's complaint register information. RNA is not aware of any complainants with similar fact patterns that were not treated consistently and reasonably.

Recommendations: None.

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

Objective: This Standard addresses the time required for the Company to process each complaint.

Massachusetts does not have a specific time standard in the statutes or regulations. However, the Division has established a practice of requiring that insurers respond to complaints from the Division within 14 calendar days from the date they receive a notice of complaint.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 16 Massachusetts complaint files from the examination period to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, the Company addressed 14 of the 16 complaints within 14 days. The other two complaints were acknowledged in writing within 14 days, but the Company requested more time to fully resolve the complaints. It appears that the Company's processes for responding to complaints in a timely manner are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

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 addresses whether the Company maintains a system of control over the content, form and method of dissemination for all advertisements of its policies.

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

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

- The corporate communications department, the legal department and the business line manager collaboratively develop advertising and sales materials targeted to consumers and producers.
- OB and the Company permit agents to develop advertising material. The standard agency contract requires agents to obtain home office approval prior to use of such material.
- OB's policy is to disclose its name and address on its website.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for advertising and sales materials, and reviewed three pieces of advertising and sales materials used during the examination period for compliance with statutory and regulatory requirements. RNA reviewed the standard agency contract for the requirement to obtain home office approval prior to use of agent-developed advertising material. Finally, RNA reviewed the OB website for appropriate disclosure of its name and address, and general compliance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: The results of RNA's testing showed that the Company's advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3. The standard agency

contract contains the requirement to obtain home office approval prior to use of agent-developed advertising material. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02. However, the Company has not retained internal approval of the three advertising materials used during the examination period.

Recommendations: The Company should adopt a written policy and procedure, which requires that approvals from corporate communications, the legal department and the business line manager are obtained before marketing materials are published. Further, the written policy and procedures should require that this documentation be retained by the Company as long as the materials are in use.

Subsequent Actions: The Company has implemented the recommendations noted above.

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

Objective: This Standard addresses whether all of 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 and Standard III-3:

- The Company has distributed producer training materials focusing on Company policies, practices and procedures, including those relating to underwriting and rating, policyholder service, and claims.
- The Company's producers have access to electronic policy and procedure manuals through the Company's agent web portal.

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: RNA interviewed Company personnel with responsibility for developing and distributing producer training materials, and reviewed such materials in use during the examination period for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's producer training materials appear accurate and reasonable.

Recommendations: None.

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

Objective: This Standard addresses whether the written and electronic communication between the Company and its producers is in accordance with applicable statutes, rules and regulations.

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and circulating written producer communications, and reviewed several such communications to producers during the examination period for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 193R.

Objective: This Standard addresses whether the Company's mass marketing efforts comply 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 motor vehicle or homeowner 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 reasonably assure consistency in application of premium discounts and surcharges.
- The Company provides the same premium discount of 2-10% to each member of various affinity groups.
- The Company files its affinity group premium discounts with the Division for approval as required.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for its marketing and underwriting processes. RNA selected 45 private passenger automobile policies newly issued and 10 policies renewed during the examination period for testing of premium discounts including affinity group discounts. For the three policies where affinity group discounts were applied, RNA verified whether the Company properly applied each Division approved affinity group discount.

Transaction Testing Results:

Findings: None.

Observations: For the three policies where affinity group discounts were applied, RNA verified that the Company properly applied each Division-approved affinity group discount.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

IV. PRODUCER LICENSING

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

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

18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletins 1998-11 and 2001-14.

Objective: The Standard addresses licensing and appointment of the Company's producers.

M.G.L. c. 175, § 162I requires that all persons who solicit, sell or negotiate insurance in the Commonwealth be licensed for that line of authority. Further, any such producer shall not act as an agent of the Company unless the producer has been appointed by the Company pursuant to M.G.L. c. 175, § 162S.

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 ("Act"), it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers acting as agents who are affected by this law. Those individuals may either apply for an exemption from the law, or must cease and desist from their engagement in the business of insurance.

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

- The Company's general policy is to appoint non-ERP producers as agents. The Company's appointment procedures are designed to comply with statutory requirements, which state, in part, that if an insurer is going to appoint a licensed producer as agent, the producer must be appointed within 15 days from the date the producer's contract is executed, or when the first policy application is received.
- The Company's policy is to seek the Division's approval regarding the appointment of any "prohibited person" as noted above when it wishes to appoint such a person.
- The Company maintains an automated producer database that tracks all terminations, appointments and other licensing changes related to its appointed agents and ERPs.
- The Company verifies that producers are properly licensed for the lines of business to be sold in Massachusetts prior to contracting with them as agents.
- All appointed agents and ERPs are required to enter into a written contract with the Company prior to selling business. Standard contract terms and conditions address authorities and responsibilities, producer licensing, maintenance of records, ownership of

business, privacy requirements, binding authority, commission rates, premium accounting, advertising, and termination/suspension provisions.

- The Company requires its appointed agents to maintain \$1 million of E&O coverage.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA reviewed evidence of agent appointments in conjunction with testing of 55 private passenger automobile policies issued or renewed during the examination period. RNA verified that the sales agent for each policy was included on the Division's list of the Company's appointed agents at the time of sale.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of RNA's testing of 55 private passenger automobile policies issued or renewed during the examination period, all of the producers who sold policies during the examination period were properly licensed. All but five producers were either included on the Division's list of the Company's appointed agents or were ERPs assigned to the Company by CAR at the time the policies were issued. The five non-ERPs were not appointed as agents at the time the policies were issued. Subsequently, the Company appointed the five non-ERP producers as agents.

Recommendations: The Company should implement a control procedure during underwriting to ensure that all non-ERP producers are appointed as agents prior to selling business. Further, the Company and the Division shall complete a reconciliation of the Company's agent appointments at a mutually agreed upon date, to ensure that such appointment records are in agreement.

Subsequent Actions: The Company states that it is now appointing all non-ERP producers as agents within the required time frame.

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

18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletins 1998-11 and 2001-14.

See Standard IV-1.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: This Standard addresses the Company's termination of producers in accordance 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 a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent and the reasons for which the Division may terminate a producer's license.

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

- The Company's policy and practice is to notify the Division of agent terminations as required by statute.
- The Company's policy and practice is to notify the Division of the reason for agent terminations when the termination is "for cause."
- The Company has a process for notifying agents that their appointments have been terminated, which complies with statutory and contractual requirements.

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: RNA interviewed individuals with responsibility for producer contracting and termination processing. RNA selected three terminated agents from the Company's termination listing and the Division's termination records, and compared the termination information on both listings.

Transaction Testing Results:

Findings: None.

Observations: The results of RNA's testing showed that the Company appears to be notifying the Division when it terminates agent appointments.

Recommendation: None.

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

Objective: The Standard addresses the Company's policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders.

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. In conjunction with testing of 55 private passenger automobile policies issued or renewed during the examination period, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: Through RNA's testing of private passenger automobile policies, no evidence of unfair discrimination against policyholders was noted as a result of the Company's policies regarding producer appointments and terminations.

Recommendations: None.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: The Standard addresses the Company's documentation of producer terminations.

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 if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent and the reasons for which the Division may terminate a producer's license.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and termination processing. RNA selected three terminated agents from the Company's termination listing and reviewed the reasons for each termination.

Transaction Testing Results:

Findings: None.

Observations: Based on RNA's testing, the Company's internal records adequately document reasons for agent terminations. None of the terminations that RNA tested was "for cause" as defined by statute.

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination because the Company direct bills most premium, thus excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the scope of the statutory financial examination of the Company.

FOR INFORMATION PURPOSES ONLY

V. POLICYHOLDER SERVICE

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

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

M.G.L. c. 175, §§ 193B and 193B ½.

Objective: This Standard addresses efforts to provide policyholders with sufficient advance notice of premiums due and notice of cancellation due to non-payment.

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

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

- The Company directly bills policyholders, who receive a billing notice from the Company 20 days prior to the premium due date. The Company receives premium payments by electronic funds transfer or check.
- Company policy generally requires a 30% premium down payment at the time an application is taken.
- All billing notices contain disclosures regarding grace periods and policy cancellation for non-payment of premium.

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: RNA interviewed Company personnel with responsibility for policyholder service. RNA also reviewed billing notice dates for private passenger automobile policies issued or renewed during the examination period, and reviewed installment and interest charges on a limited basis.

Transaction Testing Results:

Findings: None.

Observations: The premium and billing transactions tested were processed according to the Company's policies and procedures. Based upon the results of testing, the Company's processes for mailing billing notices with adequate advance notice, and properly applying monthly service charges on installment payments, appear to be functioning in accordance with its policies, procedures, and statutory requirements.

Recommendation: None.

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

M.G.L. c. 175, § 187B.

Objective: This Standard addresses the Company's procedures to ensure customer cancellation requests are processed timely. Objectives pertaining to policy issuance are included in Underwriting and Rating Standard VI-6. Return of premium testing is included in Policyholder Service Standard V-7.

Pursuant to M.G.L. c. 175, § 187B, insurers are required to return unearned premium in a reasonable time upon receipt of the policyholder's request to cancel.

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

- Company policy is to cancel policies upon notification from the producer of the policyholder's request, and to process premium refunds in a timely manner.
- The Company refunds unearned premium to policyholders on a pro-rata or short rate basis, pursuant to statutory and regulatory guidelines.
- Automobile policyholders can cancel their policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service or evidence that they have moved out of Massachusetts.

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: RNA interviewed Company personnel with responsibility for policyholder service, and tested one private passenger automobile cancellation processed during the examination period. RNA reviewed evidence that the cancellation request was processed timely.

Transaction Testing Results:

Findings: None.

Observations: The insured-requested cancellations tested were processed timely according to the Company's policies and procedures. Based upon the results of testing, the Company's processing of insured-requested cancellations appears to be functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

Objective: This Standard addresses the Company's procedures to provide timely and responsive information to customers by the appropriate department. Complaints are covered in the Complaint Handling section. Claims are covered in the Claims section.

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

- Customer service representatives answer policyholders' general questions about their policies or billing matters.
- The Company considers its producers as having the primary relationship with the policyholder. Since customer service representatives are not licensed producers, policyholders must request endorsements and policy changes through the producer. Policyholders who request such changes through customer service can be transferred to the producer for servicing.
- The Company's Key Performance Indicators ("KPIs") accumulate monthly information regarding policyholder service performance, and the results are monitored.

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: RNA discussed correspondence procedures with Company personnel, and reviewed correspondence in conjunction with underwriting, rating, policyholder service and claims standards. RNA also obtained and reviewed documentation showing customer service KPIs.

Transaction Testing Results:

Findings: None.

Observations: Based upon a review of general correspondence between policyholders and the Company regarding underwriting, rating, policyholder service and claims, and review of the above information, it appears that the Company handles customer inquiries and correspondence directed to it in a timely and responsive manner.

Recommendations: None.

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

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

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

Objective: This Standard addresses procedures for the accurate and complete processing of policy transactions. Objectives pertaining to policy issuance, renewal and endorsements are included in Underwriting and Rating Standard VI-6. Return of premium testing is included in Policyholder Service Standard V-7. Billing transactions are reviewed in Policyholder Service Standard V-1, and insured-requested cancellations are tested in Policyholder Service Standard V-2. Company cancellations and non-renewals are tested in Underwriting and Rating Standard VI-7 and VI-8.

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

M.G.L. c. 200A, §§ 1, 2, 7-7B, 8A and 9.

Objective: This Standard addresses efforts to locate missing policyholders or beneficiaries and to comply with escheatment and reporting requirements.

M.G.L. c. 200A, §§ 1, 2, 7-7B, 8A and 9 state that amounts due policyholders or beneficiaries are presumed abandoned if unclaimed for more than three years after the funds become payable. Annual reporting to the State Treasurer's Office regarding efforts to locate owners is required, and the statutes require payments to the State Treasurer's Office for escheated property.

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

- Company policy requires that un-cashed checks including claims and premium refunds be reported and escheated when the owner can not be found.
- The Company has implemented procedures to locate lost owners via Company records and public databases. For un-cashed checks, the Company conducts further research and sends a letter to the last known address in an attempt to locate the owner.
- The Company annually reports escheatable funds to the State Treasurer by November 1st as required by law. Prior to escheatment of funds, a final attempt is made to locate the owner.

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: RNA discussed the Company's procedures for locating missing policyholders and escheatment of funds with Company personnel and reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have processes for locating missing policyholders and claimants, and appears to make reasonable efforts to locate such

individuals. The Company appears to report unclaimed items and escheat them as required by law.

Recommendations: None.

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

General: M.G.L. c. 175, §§ 187B and 187C.

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

Objective: This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled.

Pursuant to M.G.L. c. 175, § 187B, a company is required to refund the proper amount of unearned premium upon any 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.

M.G.L. c. 175, § 113A provides, in part, that when a motor vehicle policy is cancelled by either the insured or the company, insureds that paid the premium are entitled to a return of premium calculated on a pro rata basis. Pursuant to M.G.L. c. 175, § 176A, premium refunds on cancelled policies must be paid to the policyholder within 30 days, and notice of the cancellation must be given. Pursuant to 211 CMR 85.00, short rate tables may be required to calculate automobile premium refunds, depending on when the policy is cancelled.

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

- Company policy is to cancel policies upon notification from the producer of the policyholder's request, and to process premium refunds in a timely manner.
- The Company refunds unearned premium to policyholders on a pro-rata or short rate basis, pursuant to statutory and regulatory guidelines.
- Automobile policyholders can cancel their policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service or evidence that they have moved out of Massachusetts.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected one private passenger automobile insured-requested cancellation processed during the examination period to test for proper premium refund calculation and timely payment.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, premium refunds appear to be calculated properly and returned timely.

Recommendations: None.

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

Objective: This Standard addresses the Company's procedures to provide history and loss information to insureds in a timely manner.

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

- The Company's producers and its claims personnel have access to claims history and paid loss information for personal lines policyholders from a statewide automobile claim database and a private Comprehensive Loss Underwriting Exchange database.
- The Company's policy is to ask the producer to provide a policyholder their claims history and paid loss information 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: RNA discussed with Company personnel its policies and procedures for responding to policyholder inquiries regarding claims history and paid loss information.

Transaction Testing Results:

Findings: None.

Observations: The testing of underwriting and rating, claims, complaints and policyholder service noted no evidence of the Company failing to respond to policyholder inquiries on claims history and paid loss information.

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 175E, §§ 4 and 7, M.G.L. c. 175, §§ 113B and 193R; 211 CMR 56.00, 79.00, 86.00, 124.00 and 134.00.

Objective: This Standard addresses whether the Company is charging premiums using properly filed rates.

For private passenger auto policies, M.G.L. c. 175E, § 7 and 211 CMR 79.00 require every insurer, or rating organization authorized to file on behalf of such insurer, to file with the Commissioner its classifications, rules and rates, rating plans and modifications of any of the foregoing not less than 45 days before the effective date thereof. 211 CMR 86.00 requires premium discounts for anti-theft devices, and 211 CMR 124.00 mandates premium discounts for certain safety features.

Pursuant to M.G.L. c. 175E, § 4, private passenger automobile insurance rates shall be reduced for insureds age 65 or older. M.G.L. c. 175, § 113B mandates various discounts and surcharges. M.G.L. c. 175, § 193R permits affinity group discounts based on experience for all policies. 211 CMR 56.00 requires premium discounts for election of optional repair shop endorsement plans, and 211 CMR 134.00 requires each driver to receive a Safe Driver Insurance Plan ("SDIP") rating with its corresponding discounts and surcharges.

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

- The Company has written underwriting and rating policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Producers enter application data and billing mode information on-line on the Company's Collaborative Edge system.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of the general rating methodology, in accordance with statutory and regulatory requirements.
- Private passenger automobile rates are annually determined by the Division, and these rates are incorporated in the Automobile Insurers Bureau of Massachusetts ("AIB") Rating Manual. The Company applies such rates to information provided by the applicant, and obtained from the Massachusetts Registry of Motor Vehicles, to calculate premium. This information includes the garage location of vehicles.
- The Company offers private passenger automobile affinity group discounts which are approved by the Division.

- The low mileage discount form, which verifies actual mileage, must be completed annually to receive the low mileage discount.
- For private passenger automobile policies, the Company compares discount usage, rate class distribution, operator classifications and driver SDIP distributions by producer for unusual results, and reports such results to producers to help them proactively prevent and detect potential fraud.
- The Company's underwriting department conducts annual field audits of all ERPs as required by CAR to ensure compliance with the Company's underwriting 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: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information. RNA selected 18 private passenger automobile policies issued or renewed during the examination period to test rate classifications and premiums charged. RNA verified that each policy's premium, discounts and surcharges complied with statutory and regulatory requirements, and with private passenger automobile rates set by the Commissioner.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company calculates policy premiums, discounts and surcharges in compliance with statutory requirements, as well as with applicable rates set by the Commissioner.

Recommendations: None.

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

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

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

Pursuant to M.G.L. c. 175E, § 11, a private passenger auto information guide shall be provided upon application which outlines choices of coverage available to insureds and an approximation of differences in cost among various types of coverage and among competing carriers. Pursuant to M.G.L. c. 175E, § 11A, producers shall disclose coverage options in simple language to every person they solicit, including the option to exclude oneself and members of one's household from personal injury protection coverage.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete, including the use of all Company required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- The Company provides private passenger automobile information guides to producers, who are required to provide them to consumers.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.
- The Company's underwriting department conducts annual field audits of all ERPs as required by CAR, to ensure compliance with the Company's underwriting 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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to provide required coverage disclosures to insureds upon initial application and renewal, in accordance with statutory guidelines. Although the Company stated that it believes that its producers provided information guides to consumers, no evidence is available supporting this assertion. However, RNA is not aware of any evidence suggesting that policyholders have not received the information guide.

Recommendations: None.

Standard VI-3. The regulated entity 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 addresses illegal rebating, commission cutting or inducements and requires that producer commissions adhere to the commission schedule.

Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, the Company, or any agent 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 has procedures for paying producers' commissions in accordance with written contracts.
- The Company's producer contracts, policies and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for commission processing and producer contracting. In connection with the review of producer contracts, RNA inspected new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or inducements. RNA also selected 10 private passenger automobile policies issued or renewed during the examination period to test commissions paid to producers and to look for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

General: M.G.L. c. 175, § 193T

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

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting.

M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation or physical impairment, unless such discrimination is based on sound actuarial principles or is related to actual experience. Further, pursuant to M.G.L. c. 175E, § 4, automobile risks shall not be

grouped by sex, marital status or age, except to produce the reduction in rates for insureds age sixty-five years or older. Pursuant to M.G.L. c. 175, § 22E, no insurance company, and no officer or agent thereof on its behalf, shall refuse to issue, renew or execute as surety a motor vehicle liability policy or bond, or any other insurance based on the ownership or operation of a motor vehicle because of age, sex, race, occupation, marital status, or the vehicle's principal place of garaging. Pursuant to M.G.L. c. 175, § 113K, persons 16 years of age and older may purchase automobile insurance. Pursuant to M.G.L. c. 175, § 113N, no medical examination can be required as a condition of underwriting.

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

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Company policy is to accept all private passenger automobile risks, except where the Company may decline a risk if the applicant, or any person who usually drives the motor vehicle, has failed to pay premiums during the preceding 12 months, or if the applicant does not hold or is not eligible to obtain a driver's license.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.

Controls Reliance: Controls tested 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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or renewed during the examination period, to test for evidence of unfair discrimination in underwriting.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, RNA noted no evidence that the Company's underwriting practices are unfairly discriminatory.

Recommendations: None.

Standard VI-5. All forms including contracts, riders, endorsement forms and certificates are filed with the Department of Insurance (if applicable).

General: M.G.L. c. 175, § 2B and 192.

Automobile: M.G.L. c. 175, §§ 22A and 113A.

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

Pursuant to M.G.L. c. 175, § 2B, policy form language, size and content standards for all policies must meet statutory requirements for readability and understanding. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and must be filed with the Division for approval prior to use. Pursuant to M.G.L. c. 175, §§ 22A and 113A, automobile policy forms must be filed with the Division for approval prior to use.

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 private passenger automobile policy forms and endorsements which are approved by the Division.
- Producers are required to use approved forms and endorsements as guidelines when providing quotes to customers.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or renewed during the examination period to test for the use of policy forms and approved endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company is using approved policy forms and endorsements in compliance with statutory requirements.

Recommendations: None.

Standard VI-6. Policies, riders and endorsements are issued or renewed accurately, timely and completely.
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Objective: This Standard addresses 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 policy forms and endorsements which are approved by the Division. Producers are required to use such approved forms and endorsements as guidelines when providing quotes to customers.
- Any changes in policy coverage must be requested through the producer, who must timely process such requests.

- The Company's underwriting department conducts annual field audits of all ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.
- Company procedures include sending a renewal notice to the policyholder approximately 30 days prior to the policy renewal effective date. Policyholders must sign and return a questionnaire to receive any private passenger automobile low mileage discount.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or renewed, and seven private passenger automobile endorsements for the examination period to test whether new and renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

General: M.G.L. c. 175, § 193T

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

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

M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation or physical impairment, unless such discrimination is based on sound actuarial principles or is related to actual experience. Pursuant to M.G.L. c. 175, § 22E, no insurance company or agent thereof in its behalf, shall refuse to issue, renew or execute as surety a motor vehicle liability policy or bond, or any other insurance based on the ownership or operation of a motor vehicle because of age, sex, race, occupation, marital status, or principal place of garaging of the vehicle. In addition, M.G.L. c. 175, § 113D states that any person aggrieved by the refusal of any company or an agent thereof to issue such a policy may file a written complaint with the commissioner within 10 days after such refusal.

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Company policy is to accept all private passenger automobile risks, except where it may cancel coverage if the applicant, or any person who usually drives the motor vehicle, failed to pay premiums during the preceding 12 months, or if the applicant does not hold or is not eligible to obtain a driver's license.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected four private passenger automobile company-initiated cancellations and three non-renewals processed during the examination period, to ensure that cancellations and non-renewals were not unfairly discriminatory.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, Company-initiated cancellations and non-renewals do not appear to be unfairly discriminatory.

Recommendations: None.

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

General: M.G.L. c. 175, § 187C.

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

Objective: This Standard addresses notice to policyholders for cancellation, non-renewal and declinations, including advance notice before expiration for cancellation and non-renewals.

Pursuant to M.G.L. c. 175, § 187C any Company shall effect cancellation of any policy by serving written notice thereof as provided by the policy and by paying the full return premium due.

M.G.L. c. 175, § 22C states that a motor vehicle policy shall not be cancelled by the company except for nonpayment of premiums, the failure to complete the application, fraud or material misrepresentation in the application or unless the operator's license or motor vehicle registration of the named insured, or of any other person who resides in the same household as the named insured and who usually operates a motor vehicle insured under the policy, has been under suspension or revocation during the policy period, or if the insured refuses to comply with a request for inspection of his vehicle by the insurer. Pursuant to M.G.L. c. 175, § 113A, no

cancellation of the policy shall be valid unless written notice of the specific reason or reasons for such cancellation is given at least 20 days prior to the effective date thereof, which date shall be set forth in the notice. M.G.L. c. 175, § 113F states that any Company which does not intend to issue, extend or renew a motor vehicle liability policy shall give written notice to the insured (or agent in certain circumstances) of its intent 45 days prior to the termination effective date. Such notice also must be sent to the Registry of Motor Vehicles. Every insurance agent or broker receiving such a notice from a company shall, within 15 days of its receipt, send a copy of such notice to the insured, unless another insurer has issued a motor vehicle policy covering that insured's vehicles.

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

- Company policy requires that written cancellation and non-renewal notice be given to private passenger automobile policyholders in accordance with statutory requirements. The Company's practice is to give at least 20 days written notice to the policyholder prior to the effective date for cancellations, and at least 45 days notice to the policyholder prior to the effective date for non-renewals. The Company's general practice is to give notice to the producer, who is responsible for timely communicating the pending action to the policyholder.
- The Company generally gives a private passenger automobile declination notice to applicants at the application date if the applicant does not have a valid driver's license or owed outstanding balances to insurers during the previous year. If the applicant has a history of non-payment of automobile premium over the preceding two years, the Company is permitted by statute to require a 100% premium deposit, rather than to decline the application.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected four private passenger automobile company-initiated cancellations, and three non-renewals processed during the examination period, to test compliance with cancellation and non-renewal notice requirements.

Transaction Testing Results:

Findings: Based on the results of testing, the Company appears to generally comply with the 20 day prior notice requirements for company-initiated private passenger automobile cancellations and non-renewals. However, one of the company-initiated cancellation notices was provided with only 19 days notice.

Observations: None.

Recommendations: The Company shall adopt new control procedures to ensure that its private passenger automobile cancellation notices comply with statutory requirements.

Subsequent Actions: The Company has subsequently adopted new control procedures to ensure that its private passenger automobile cancellation notices comply with statutory requirements.

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

General: M.G.L. c. 175, § 187D.

Automobile: M.G.L. c. 175, § 22C.

Objective: This Standard addresses whether decisions to rescind and to cancel coverage are made appropriately.

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

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 statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- As a general policy, the Company does not rescind policies as of their effective date, but instead cancels them as of the date on which it determines such cancellation is 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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected four private passenger automobile company-initiated cancellations and three non-renewals processed during the examination period to test for evidence of improper rescission.

Transaction Testing Results:

Findings: None.

Observations: None of the policies tested were rescinded, and RNA noted no improper rescission in conjunction with other underwriting tests.

Recommendations: None.

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

General: M.G.L. c. 175, § 193R.

Automobile: M.G.L. c. 175E, §§ 4 and 7, M.G.L. c. 175, § 113B; 211 CMR 56.00, 79.00, 86.00, 124.00 and 134.00.

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

M.G.L. c. 175, § 193R permits affinity group discounts based upon experience for all policies.

For private passenger automobile policies, M.G.L. c. 175E, § 7 and 211 CMR 79.00 require every insurer, or rating organization authorized to file on behalf of such insurer, to file with the Commissioner every manual of its classifications, rules and rates, rating plans and modifications of any of the foregoing not less than 45 days before the effective date thereof. 211 CMR 86.00 requires premium discounts for anti-theft devices, and 211 CMR 124.00 mandates premium discounts for certain safety features.

Pursuant to M.G.L. c. 175E, § 4, rates for private passenger automobile policies shall be reduced for insureds age 65 or older. M.G.L. c. 175, § 113B mandates various discounts and surcharges. 211 CMR 56.00 requires premium discounts for election of optional repair shop endorsement plans, and 211 CMR 134.00 requires each driver to receive an SDIP rating with its corresponding discounts and surcharges.

Controls Assessment: See Standard VI-1.

Controls Reliance: See Standard VI-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information. RNA selected 18 private passenger automobile policies issued or renewed during the examination period to test rate classifications and premiums charged. RNA verified that each policy's credits and deviations were consistently applied on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company consistently applies credits and deviations on a non-discriminatory basis.

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination because the Company does not offer commercial lines coverage.

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

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

Standard VI-14. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

Standard VI-15. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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

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

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 the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- Producers enter application data and billing mode information on-line on the Company's Collaborative Edge system.
- Certain risks are referred to the underwriting department to determine whether they should be retained or ceded to CAR, in compliance with CAR Rule 11 underwriting participation guidelines.
- The Division annually determines private passenger automobile rates, premiums and discounts, and such rate information is incorporated in the AIB Rating Manual. The Company applies such rates to information provided by the applicant, and obtained from the Massachusetts Registry of Motor Vehicles, at or near the inception of coverage.
- For private passenger automobile policies, the Company compares discount usage, rate class distribution, operator classifications and driver SDIP distributions by producer, and reports unusual results to producers to help them proactively prevent and detect potential fraud.
- The Company's underwriting department conducts annual field audits of all ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination because the Company does not perform premium audits on personal lines coverage.

Standard VI-19. The regulated entity underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.

See Standard VI-4 for testing of this standard.

Standard VI-20. 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).

General: M.G.L. c. 175, §§ 2B and 192.

Automobile: M.G.L. c. 175, §§ 22A and 113A.

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

Pursuant to M.G.L. c. 175, § 2B, policy form language, size and content standards for all policies must meet statutory requirements for readability and understanding. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and must be filed with the Division for approval prior to use. Pursuant to M.G.L. c. 175, §§ 22A and 113A, automobile policy forms must be filed with the Division for approval prior to use.

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 private passenger automobile policy forms and endorsements which are approved by the Division.
- Producers are required to use approved forms and endorsements as guidelines when providing quotes to customers.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or

renewed during the examination period to test for the use of policy forms and approved endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company is using approved policy forms and endorsements in compliance with statutory requirements.

Recommendations: None.

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

M.G.L. c. 176D, §§ 3(4) and 3A.

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

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

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy is to accept all private passenger automobile risks, except where it may decline a risk if the applicant, or any person who usually drives the motor vehicle, has failed to pay premiums during the preceding 12 months, or if the applicant does not hold or is not eligible to obtain a driver's license.
- Premium rates for private passenger automobile coverage are determined annually by the Division, and are consistent among all private passenger automobile insurers. As such, anti-trust pricing concerns are minimal for these policies.
- The Company's underwriting department conducts annual field audits of all its ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or renewed during the examination period, to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 193R.

Objective: This Standard addresses 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 motor vehicle or homeowners 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 reasonably assure consistency in application of premium discounts and surcharges.
- The Company provides the same premium discount of 2-10% to each member of various affinity groups.
- The Company files its available affinity group premium discounts with the Division for approval.
- The Company's underwriting department conducts annual field audits of all its ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or renewed during the examination period to test premium discounts including affinity group discounts. RNA verified that each affinity discount given was properly applied and approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that each of the premium discounts given to affinity group members was properly applied and approved by the Division.

Recommendations: None.

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

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

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.

General: M.G.L. c. 175, § 187C.

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

See Standard VI-8 for testing of this standard.

Standard VI-25. Regulated entity verifies that VIN number submitted with application is valid and that the correct symbol is utilized.

M.G.L. c. 175, § 113S and 211 CMR 94.08.

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

M.G.L. c. 175, § 113S requires that used cars, and those purchased by new customers, be inspected before fire and theft (or comprehensive), collision or limited collision coverage can be issued. 211 CMR 94.08 requires that pre-insurance inspections of vehicles must verify the VIN.

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

- The producer is responsible for obtaining the VIN and symbol when the application is completed.
- Company policy and procedures require that pre-insurance inspections of vehicles be conducted to verify the VIN and symbol numbers.
- The Company's underwriting system compares the VIN and symbol to its industry database to ensure that both are accurate.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or renewed during the examination period, to determine whether the Company verifies the VIN and symbol.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company issues automobile policies with VINs that are valid and symbols that are accurate.

Recommendations: None.

<u>Standard VI-26. All policies are correctly coded.</u>

Objective: This Standard addresses 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 reasonably assure consistency in classification and rating.
- Company policy is to timely report complete and accurate premium data to CAR and the AIB.
- The Company reports private passenger automobile premium data to CAR in a format required by CAR. The Company also reports premium data to the AIB, which is a rating bureau that represents the insurance industry in rate hearings before the Commissioner of Insurance.
- The Company reports detailed premium data quarterly to CAR and the AIB.
- The Company has a process for correcting data coding errors and making subsequent changes.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules.

- The Company's underwriting department conducts annual field audits of all its ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.

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: RNA interviewed Company personnel with responsibility for the underwriting process, and selected 55 private passenger automobile policies issued or renewed during the examination period to test data coding. RNA also reviewed detailed reports from CAR and ISO showing the Company's premium data in summary format for reasonableness compared to Company statistical data. Finally, RNA reviewed the CAR audit reports issued in 2005 and 2007 on the Company's compliance with CAR statistical coding requirements for key policy determinants for business ceded to CAR.

Transaction Testing Results:

Findings: None.

Observations: Numerous errors were noted in the 2005 CAR audit report of the Company's 2003 activity, and the 2007 CAR audit report of its 2005 activity. Some common errors were reported in both years. The Company states that it made changes to its premium statistical reporting methodology due to the issues identified during 2003, which were reflected in the 2005 CAR audit report; however, some of the results of such changes were not yet evident in 2005, as documented in the 2007 CAR audit report. Some of the errors noted included vehicle premium statistical errors related to zip codes, discounts, mileage codes, and transaction codes. The Company states that it began converting its private passenger automobile business to an underwriting system managed by an outside vendor. With this conversion, the Company states that it has been able to make significant progress addressing the errors in the CAR audit report regarding 2005 activity. In addition, the Company states that it receives daily error reports, which allow it to identify and correct individual policy errors.

Recommendations: The Company's internal audit function, together with the business information services department, shall conduct a review and evaluation of the new computer logic and procedures to ensure that controls over coding and statistical reporting are effectively designed and properly implemented. The Company shall periodically update the Division, as requested, on these results of the audits.

<p>Standard VI-27. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation supports underwriting decisions made.</p>

Objective: This Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating.

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

- Company policy requires that the underwriting files support its underwriting and rating decisions.
- Producers enter application data and billing mode information on-line on the Company's Collaborative Edge system.
- Producers are responsible for completing applications for new business and obtaining information needed to properly underwrite and rate the policy. Properly completed applications include applicant and producer signatures.
- Underwriting personnel review the applications submitted by producers for completeness and internal consistency.
- The Company's underwriting department conducts annual field audits of all ERPs as required by CAR, to ensure compliance with the Company's underwriting policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.

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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 55 private passenger automobile policies issued or renewed during the examination period, to test whether the policy files adequately support the Company's decisions.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that policy files adequately supported the Company's decisions.

Recommendations: None.

VII. CLAIMS

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

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

M.G.L. c. 176D, § 3(9)(b).

Objective: The Standard addresses the timeliness of the Company's initial contact with the claimant.

Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claim 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 Standards VII-1 through VII-13:

- Written Company policies and procedures govern the claims handling process.
- A majority of claims are reported through one of the Company's producers. Written claim forms are received via fax, electronically or through the 800 customer service telephone number. Company policy requires that a claim file be established and a claims representative be assigned within 24 hours of receipt of a claim.
- Company policy and claim handling procedures do not distinguish between claims on policies ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- Company policy is to respond to all physical damage claims within two business days after receiving a loss report, as required by CAR standards. Appraisers are dispatched to adjudicate all physical damage claims.
- Company policy is to complete physical damage appraisals within five days of the date of the appraisal assignment, as required by CAR standards.
- Claims management periodically reviews open claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and claim processing time.
- The Company periodically surveys claimants to ask about their experience when filing a claim. The results are compiled and analyzed, and necessary follow-up on specific comments is performed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 75

private passenger automobile claims processed during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: The claim transactions tested were processed according to the Company's policies and procedures, and the Company's initial contact with claimants was timely. Based upon the results of testing, it appears that the Company's processes for making initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

M.G.L. c. 176D, § 3(9)(c).

Objective: The Standard addresses 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: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 75 private passenger automobile claims processed during the examination period to evaluate the Company's compliance with its claim handling policies and procedures, and to verify that it conducts investigations in a timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Objective: The Standard addresses the timeliness of the Company's claim settlements.

Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claim 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 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.

Automobile Claims:

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

M.G.L. c. 175, § 191A requires insureds to give timely notice of a property damage loss to the company or its agent. Further, insureds must also report theft to the police and the Company must pay such claims within 60 days after a proof of loss is filed. The statute also sets forth a process for selecting a disinterested appraiser in the event the insured and the company fail to agree on the amount of loss.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 75 private passenger automobile claims processed during the examination period, to verify that claim resolutions were timely.

Transaction Testing Results:

Findings: None.

Observations: The resolution of tested claims was timely. RNA verified that the Company's direct payment plan complies with 211 CMR 123.00. Based upon the results of testing, it appears that the Company resolves claims timely in compliance with Company policies, procedures and statutory requirements.

Recommendation: None.

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

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

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

Pursuant to M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e), respectively, unfair claim settlement practices include failure to promptly address communications for insurance claims, and failure to affirm or deny coverage within a reasonable time after the claimant has given proof of loss.

Controls Assessment: See VII-1.

Controls Reliance: See VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 75 private passenger automobile claims processed during the examination period to verify that general claims correspondence was answered timely.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that general correspondence for the tested claims was answered timely. Based upon the results of testing, it appears that the Company timely responds to claim correspondence, in compliance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim records.

Controls Assessment: See VII-1.

Controls Reliance: See VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 75 private passenger automobile claims processed during the examination period, to verify that claim files were adequately documented.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the files for tested claims were adequately documented. Based upon the results of testing, it appears that the Company's processes for documenting claim files are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

Objective: The Standard addresses whether appropriate claim amounts have been paid to the appropriate claimant/payee.

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

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. M.G.L. c. 175, § 24E, requires the insurer to exchange information with the Commonwealth not less than 10 business days prior to making payment to a claimant who has received public assistance benefits. M.G.L. c. 175, § 24F requires communication with the Commonwealth regarding unpaid taxes. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, § 111F. 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, § 193K prohibits discrimination by companies in the reimbursement of proper expenses paid to certain professions and occupations, such as physicians or chiropractors.

Automobile Claims:

Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, § 113J. M.G.L. c. 175, § 113O prohibits payments by an insurer for theft coverage, until the insured has received notice from the appropriate police authority that a statement has been properly filed. Additionally, companies are required to report the theft or misappropriation of a motor vehicle to a central organization engaged in motor vehicle loss prevention. 211 CMR 75.00 designates the National Insurance Crime Bureau as the central organization to be used for this purpose.

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

Controls Assessment: See VII-1.

Controls Reliance: See VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 75 private passenger automobile claims processed during the examination period, to verify that claims were handled in accordance with applicable policy provisions, and statutory and regulatory requirements.

Transaction Testing Results:

Findings: The Company responded to eight of the nine written requests for an insured’s policy limits within 30 days, as required by M.G.L. c. 175, § 112C. One request was not answered by the Company.

Observations: RNA noted that the tested claims were properly handled according to the Company’s policies and procedures, and that the claim files were handled in accordance with policy provisions. When required, the Company properly verified that claim recipients were not subject to the intercept requirements in M.G.L. c. 175, §§ 24D, 24E and 24F, prior to making the claim payment.

RNA verified that the Company has procedures in place for providing claimants with a list of registered repair shops, as well as repair shops that qualify as a referral shop, as required by 211 CMR 123.00. Further, RNA noted that the Company performs re-inspections of repaired vehicles following completion of repairs, as required by 211 CMR 123.00.

Based upon the results of testing, it appears that the Company's processes for handling claims in accordance with policy provisions, statutory and regulatory requirements are generally functioning in accordance with its policies and procedures.

Recommendations: The Company should ensure that it responds to all written requests for an insured's policy limits within 30 days, as required by M.G.L. c. 175, § 112C.

Subsequent Actions: The Company states that it has provided training to adjustors regarding the need to respond to all written requests for policy limits.

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

Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed 75 selected private passenger automobile claims processed during the examination period, to note whether claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that claim forms for the tested claims were appropriate and used in accordance with the Company's policies and procedures.

Recommendations: None.

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for 75 selected private passenger automobile claims processed during the examination period, to note whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-9. 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 addresses 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 an unfair claims settlement practice.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 20 private passenger automobile claims that were denied or closed without payment during the examination period for testing. RNA reviewed the claim correspondence and investigative reports, and noted whether the Company handled the claims timely and properly before closing them.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the files for the denied or closed without payment claims tested appeared complete, including correspondence and other documentation. Further, the Company's conclusions appeared reasonable. Based upon the results of testing, it appears that the Company's processes do not unreasonably deny or delay payment of claims.

Recommendations: None.

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

Objective: The Standard addresses the Company's procedures for issuing claim checks as they relate to appropriate claim handling practices.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for 75 selected private passenger automobile claims processed during the examination period, to note whether claim payment practices were appropriate and whether there were inappropriate releases of Company liability.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that each claim selected for testing was recorded according to the Company's policies and procedures, and that claim payment documentation was adequate. RNA noted no instances where claim payment practices appeared inappropriate. Based upon the results of testing, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Objective: The Standard addresses whether the Company's claim handling practices force claimants to (a) initiate litigation for the claim payment, or (b) accept a settlement that is substantially less than what the policy contract provides.

Pursuant to M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), unfair claims settlement practices include (a) compelling insureds to initiate 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: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for 75 selected private passenger automobile claims processed during the examination period, to note whether claim reserves were evaluated, established and adjusted in a reasonably timely manner. When applicable, RNA verified the date the claims were reported, reviewed correspondence and investigative reports, and noted the whether the Company handled the claims timely and properly.

Transaction Testing Results:

Findings: None.

Observations: Documentation for the selected claims involving litigation appeared complete, including correspondence and other documentation. Further, the Company's conclusions appeared reasonable. Based upon the results of testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to initiate litigation.

Recommendations: None.

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

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

Controls Assessment: See VII-1.

Controls Reliance: See VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed the files for 75 selected private passenger automobile claims processed during the examination period, to note whether reservations of rights or excess loss letters were warranted.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the tested claims were reported according to the Company's policies and procedures, and noted no instances where a reservation of rights or excess loss letter was used inappropriately. Based upon the results of testing, it appears that the Company's processes for utilizing reservation of rights and excess loss letters are functioning in accordance with its policies and procedures.

Recommendations: None.

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

Objective: The Standard addresses the Company's timely refund of deductibles from subrogation proceeds.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes and obtained documentation supporting such processes. RNA reviewed the files for 75 selected private passenger automobile claims processed during the examination period, to note whether subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the tested claims were accurately recorded according to the Company's policies and procedures, and noted no instances where subrogation recovery was not made in a timely and accurate manner. Based upon the results of testing, it appears that the Company's processes for making subrogation recoveries to insureds are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

- Company policy is to timely report complete and accurate loss data to CAR.

- The Company reports private passenger automobile loss data to CAR in a format required by CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the insurance industry in private passenger automobile rate hearings before the Commissioner of Insurance.
- The Company quarterly reports detailed claim data to CAR and the AIB. The claim data includes loss experience by line of business, type of loss, dollar amounts, claim counts, accident dates, territory, etc.

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: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA reviewed the CAR audit reports issued in 2005 and 2007 on the Company's compliance with CAR statistical coding requirements for key policy determinants for business ceded to CAR.

Transaction Testing Results:

Findings: None.

Observations: Numerous errors were noted in the 2005 CAR audit report of the Company's 2003 activity, and the 2007 CAR audit report of its 2005 activity. Some common errors were reported in both years. The Company states that changes were made to its claim statistical reporting methodology due to the issues identified in 2003, which were reflected in the 2005 CAR audit report; however, some of the results of such changes were not yet evident in 2005 as documented in the 2007 CAR audit report. Some of the errors noted included claim accident location, claim number, claimant type and claim type. The Company has identified the root causes of the statistical errors and will be developing computer logic changes to correct these errors.

Recommendations: The Company shall complete the development of the computer logic changes to correct statistical errors noted in the CAR audit reports. Further, the Company's internal audit function, together with the business information services department, shall conduct a review and evaluation to ensure that controls over coding and statistical reporting are effectively designed and properly implemented. Lastly, the Company shall periodically update the Division, as requested, on progress of the implementation efforts and on the results of the audits.

SUMMARY

Based upon the procedures performed in this comprehensive examination, RNA 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 *2006 NAIC Market Regulation Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. We have made recommendations to address various concerns in the areas of marketing and sales, producer licensing, underwriting and rating and claims.

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Rudmose & Noller Advisors, LLC, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of Insurance 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 *2006 NAIC Market Regulation 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 to the undersigned, Dorothy K. Raymond of the Division’s Market Conduct Section participated in this examination and in the preparation of the 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.

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