



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

Report on the Comprehensive Market Conduct Examination of

The Commerce Insurance Company
Citation Insurance Company

Webster, Massachusetts

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

NAIC COMPANY CODES: 34754, 40274

EMPLOYER ID NUMBERS: 04-2495247, 04-2739876

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

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

February 11, 2020

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

Dear Commissioner Anderson:

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

THE COMMERCE INSURANCE COMPANY
CITATION INSURANCE COMPANY

at their home offices located at:

211 Main Street
Webster, Massachusetts 01570

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
THE COMMERCE INSURANCE COMPANY
CITATION INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of The Commerce Insurance Company (“Commerce”) and Citation Insurance Company (“Citation”), (collectively, the “Company”) for the period January 1, 2018 to December 31, 2018, with focus on Massachusetts personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination was conducted at the direction of, and under the overall management and control of, the 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 examination approach was developed using the guidance and standards of the *2018 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and applicable Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division’s financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the Division’s financial examination staff to the extent deemed appropriate, to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

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

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

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EXECUTIVE SUMMARY

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

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

The examination resulted in no recommendations or required actions in company operations/management, complaint handling, marketing and sales, producer licensing, or policyholder service. The examination indicated that the Company meets all tested Company policies, procedures and statutory requirements in these areas. Further, the tested Company practices generally appear to meet industry best practices in these areas.

Recommendations and required actions noted in this examination are as follows:

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: None.

Observations: Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums indicated that premiums were properly calculated. Also, testing of vacated surcharges indicated that at-fault determinations reversed by the Board of Appeal were properly and timely processed in accordance with statutory and regulatory requirements. Comprehensive Loss Underwriting Exchange ("CLUE") reporting of vacated at-fault accident determinations was timely; however, four at-fault changes were not timely reported to CLUE, because the Company did not receive manual notice of the vacated at-fault accident determinations from the Board of Appeal. Finally, through claims testing it was determined that at-fault accident determinations and comprehensive claims were timely reported to the Merit Rating Board ("MRB"), and Surcharge Notices were properly provided to at-fault operators.

Recommendation: The Company should implement process improvements to ensure that all vacated at-fault determinations are identified and timely reported to CLUE in accordance with Bulletin 2010-11.

Subsequent Company Action: The Company has implemented process improvements to ensure timely reporting to CLUE of vacated at-fault accident determinations.

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STANDARD VI-8

Findings: RNA testing indicated that one private passenger automobile non-renewal notice did not include a specific reason on the notice in violation of 211 CMR 97.

Observations: For the company-initiated cancellations and non-renewals within the transactions tested, other than as noted above, the Company provided timely and adequate notice to the agencies or policyholders, with the specific reasons for the cancellations or non-renewals properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

Required Action: The Company shall remind its staff and the agents of the requirements of 211 CMR 97 in this regard, and ensure that each non-renewal notice has a specific reason listed on the notice, in accordance with Massachusetts Laws and Regulations.

Subsequent Company Actions: The Company agrees with the required action, and will ensure that specific reasons are listed on all non-renewal notices.

SECTION VII-CLAIMS

STANDARD VII-6

Findings: RNA testing noted that eight homeowners property claims files had no evidence that notice letters were provided to municipal authorities in violation of M.G.L. c. 139, § 3B. An additional claim included a notice letter that was not provided timely.

Observations: Except as noted above, RNA noted each of the tested claims was handled according to policy provisions and statutory requirements. Based upon testing and except as noted above, it appears that the Company handles claims in accordance with policy provisions and statutory requirements. Finally, upon evaluation of claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall review its controls and procedures, and make any necessary changes to ensure that timely municipal letters are issued. Also, the Company shall provide training and guidance to staff about issuance of these letters. Finally, the Company shall conduct a detailed internal audit by December 31, 2020, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company has adopted new procedures to address these findings, and will complete the audit as requested.

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COMPANY BACKGROUND

The Company is a wholly-owned subsidiary of MAPFRE USA Corporation, Inc. (“MAPFRE USA”), which is 100% owned by MAPFRE S.A. (“MAPFRE”). MAPFRE is a multinational holding company based in Madrid, Spain that operates in 45 countries, through numerous operating companies providing personal and commercial insurance, reinsurance and assistance services. MAPFRE is a subsidiary of CARTERA MAPFRE, S.L., a single-member company wholly-controlled by Fundación MAPFRE, which is a global foundation with the aim to achieve objectives of general interest to society including social action, culture, health promotion, prevention and road safety, and insurance and social security. MAPFRE’s shares are listed on the Madrid and Barcelona Stock Exchanges, which are 68.7% controlled by Fundación MAPFRE.

The Company offers private passenger automobile coverage, commercial automobile coverage, homeowners, and commercial multi-peril coverage through Commerce and Citation in Massachusetts, in addition to offering personal lines coverage in other states. The Company is the largest insurer of private passenger automobile, homeowners, and commercial automobile coverage in Massachusetts. Preferred risks in the homeowners and commercial automobile lines of business are written in Citation.

Commerce and Citation maintain a financial strength rating of A (Excellent) from A.M. Best. The following financial information is as of, or for the year ended December 31, 2018:

The Commerce Insurance Company

Admitted assets	\$2,216.2 million
Statutory surplus	\$556.0 million
Massachusetts business - direct written premium	\$1,539.2 million

Citation Insurance Company

Admitted assets	\$254.4 million
Statutory surplus	\$65.9 million
Massachusetts business - direct written premium	\$230.0 million

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

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I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's Boards of Directors are comprised of eight directors, including the President and Chief Executive Officer, the Chairman, and six independent directors, who are responsible for managing strategic, financial and operational risks.
- The Company delegates its audit committee duties to the MAPFRE Audit Committee, which has oversight of the internal audit function.
- The MAPFRE USA internal audit department consists of 11 auditors, organized in two functional units focusing on information technology and operations/financial reporting. The internal audit department reports to MAPFRE's Director of International Audit Services, and the MAPFRE Audit Committee.
- An internal audit plan is developed annually using a risk-assessment approach covering operational and financial audits, congruent with MAPFRE's strategic plan. Audit recommendations are tracked and are ranked as medium, high, or critical. The preliminary audit plan is developed in November each year, with final approval in March by the MAPFRE Audit Committee. Written audit reports are prepared for each completed audit. Quarterly updates on the audit plan are provided to management and include the status of prior audit report observations and recommendations, changes in staffing, and upcoming audits.
- A corporate risk group led by the Chief Risk Officer and five full-time employees is responsible for completing NAIC Model Audit Rule risk assessments and the Corporate Governance Annual Disclosure ("CGAD") filing.
- The Company has a corporate compliance committee that includes officers from several functional areas. The committee is primarily responsible for advising the Chief Compliance Officer, including reviewing policies and procedures related to corporate record retention, IT security, and human resource compliance matters. Policy changes are approved by the Company's Executive Committee.
- Oversight of compliance matters is monitored by the compliance team within the legal department. The claims compliance function is also contained within the legal department. The compliance team is responsible for oversight and training of regulatory compliance requirements including anti-money laundering and Office of Foreign Asset Control ("OFAC") compliance procedures; coordinating state insurance department market conduct exams; general monitoring of the Code of Conduct and Ethics; monitoring of compliance with U.S Code 1033 requirements prior to hiring a convicted felon; and privacy matters.
- The Code of Conduct and Ethics is contained in a staff handbook. All new employees are provided with access to the staff handbook, and are asked to read it. Officers and directors are required to make a written disclosure of any conflicts of interest.

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- The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers (“CAR”) for compliance with statutes and CAR Rules of Operation. CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- For homeowners business, the Northeast regional personal lines underwriting function has established a quality assurance process, where approximately 850 policies and endorsements are annually reviewed, with each underwriter covered with a minimum of 10 items per quarter. Also, all cancellation and non-renewal notices are reviewed. The results are used for training and performance evaluation purposes. The national personal lines underwriting team reviews the regional quality assurance process to ensure that it is functioning as intended.
- The claims department includes the Claims Examining, Audit & Training Unit (“CEAT”), which performs quality assurance audits. The CEAT audits include sampling of claims using defined claim handling standards. Audit reports are issued, with audit results and process improvement recommendations made.

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 Board of Director minutes, the internal audit plan and risk assessment, various internal audit reports, compliance reports, the CGAD, and CAR data audits.

Transaction Testing Results:

Findings: None.

Observations: The Board of Director minutes, the internal audit plan and risk assessment, internal audit reports, compliance reports, CGAD, and CAR data audits reviewed by RNA provided detailed information on corporate governance and actions, audit procedures performed, audit findings, and recommendations for improvement.

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 antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.
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Objective: This Standard addresses the effectiveness of the Company’s antifraud efforts. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has established a Special Investigation Unit (“SIU”) within the home office claims department to detect, investigate, and deter fraudulent claim activity. The SIU supports the claims operations with field investigations and surveillance using approved vendors as needed. Claim professionals receive training regarding SIU red flags, and also use judgment to make referrals to SIU using a standard form. If the claim is accepted by SIU, the claim is transferred from the assigned adjuster to the SIU adjuster. The SIU consults with fraud counsel and the legal department regularly.
- All auto theft claims are reported through the Insurance Services Office (“ISO”) to the National Insurance Crime Bureau (“NICB”). The SIU is responsible to refer fraudulent claims to the NICB and the Insurance Fraud Bureau, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution.
- Oversight of compliance matters is monitored by the compliance team within the legal department. The compliance team is responsible for oversight and training of regulatory compliance requirements including anti-money laundering and OFAC compliance procedures; coordinating state insurance department market conduct exams; general monitoring of the Code of Conduct and Ethics; monitoring of compliance with U.S Code 1033 requirements prior to hiring a convicted felon; and privacy matters. OFAC checks of all new and renewal business applicants and claimants against the Specially Designated Nationals (“SDN”) database are completed daily using Accuity’s Vessel Enhancement List software.

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 Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: The Company has adopted reasonable procedures related to antifraud initiatives, compliance procedures, code of conduct policies, and prospective employee hiring. Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives in place that are reasonably designed to detect, prosecute, and prevent fraudulent insurance acts.

Recommendations: None.

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

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

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

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

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

- The Company's sales distribution is primarily through independent agencies and agents. The Company verifies that agencies and individual agents are properly licensed as Massachusetts producers prior to contracting with them. The Company's standard agency contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, advertising, indemnification, underwriting policies, expirations ownership, and the maintenance of \$1 million in errors and omissions coverage.
- The Company also uses a more limited broker contract in some cases to sell insurance to consumers. The Company verifies that the brokers are properly licensed as Massachusetts producers prior to contracting with them.
- The Company's SIU supports the claims operations with field investigations and surveillance using approved vendors as needed.
- The Company uses independent field appraisers to supplement its employee claims field staff as needed, and uses third party vendors for auto glass claims and car rentals.
- Certain claims litigation defense duties are outsourced to various law firms and attorneys.

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 about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. Further, RNA reviewed the standard agency and broker contracts as part of testing in producer licensing in Standard IV-2.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company's contracts with entities assuming a business function on its behalf comply with statutory and regulatory requirements.

Recommendations: None.

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

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

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bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. As part of producer licensing, new and renewal business, and claims testing, RNA reviewed documentation that supports monitoring procedures performed.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is monitoring the activities of third parties assuming a business function on the Company's behalf, in compliance with statutory and regulatory requirements.

Recommendations: None.

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

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

- The Company has adopted record retention requirements, which are monitored by the Office of the General Counsel.
- The record retention requirements include guidelines for management, record maintenance, record disposal, and the length of time specific documents must be retained.
- All employees are to review and maintain Company records in accordance with the procedures set forth in the Policy.

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

Transaction Testing Procedure: RNA inquired about the Company's record retention policies and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policies appear reasonable. Testing results relating to documentation evidence are also noted in the various examination standards.

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Recommendations: None.

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

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

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: 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.
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Objective: This Standard addresses the Company's cooperation during the examination. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires that a consumer privacy notice be provided to applicants when a new personal lines policy is issued, and annually with renewal notices. The Company also provides the consumer privacy notice and the internet privacy policy on its website.
- Company policy allows for the sharing of personal financial and health information with affiliates and non-affiliates, who provide services to the Company. Company policy is to disclose information only as required or permitted by law to regulators, law enforcement agencies, antifraud organizations, and third parties who assist the Company in processing business transactions for its customers.
- The Company does not sell or share information with anyone for marketing purposes, so there is no need to provide policyholders with opt out rights.
- Company management does not obtain investigative consumer reports on customers as part of underwriting, and does not conduct pretext interviews.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. The Company annually conducts information systems risk assessments to consider, document, and review information technology security threats and controls, and to continually improve information technology systems security.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial, and health information is located.

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 and information security compliance, reviewed documentation supporting its privacy and information security policies and procedures, and sought any evidence of improper privacy practices as part of personal lines underwriting and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, underwriting testing, and claims testing, the Company's privacy and information security practices appear to minimize any improper intrusion into individuals' privacy in accordance with the Company's policies and procedures.

Recommendations: None.

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

Objective: This Standard addresses whether the Company has developed and implemented written standards for the management of insurance information. This standard relates to privacy matters and is evaluated elsewhere in this section. See Appendix A for applicable statutes, regulations and bulletins.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of underwriting and claims testing, RNA reviewed documentation for any evidence that the Company improperly provided personal information to inappropriate parties.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to inappropriate parties in conjunction with underwriting and claims testing.

Recommendations: None.

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

Objective: This Standard addresses the Company's practice of providing privacy notices to customers and consumers. See Appendix A for applicable statutes, regulations and bulletins.

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 supporting its privacy policies and procedures, and examined whether

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the privacy notice provided sufficient information and disclosures. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test whether a proper privacy notice was provided.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient privacy notice to customers regarding its treatment of non-public personal financial information.

Recommendations: None.

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

Objective: This Standard addresses policies and procedures related to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

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: The Company is not required to offer opt out rights, since the Company does not share information with non-affiliates.

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy

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compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed underwriting and claims documentation for any evidence that the Company improperly collected, used or disclosed nonpublic personal financial information in conjunction with testing of underwriting and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, and testing in conjunction with underwriting and claims, the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses, and discloses nonpublic personal financial information.

Recommendations: None.

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

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA also sought any evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing of underwriting and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of underwriting and claims.

Recommendations: None.

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

Objective: This Standard addresses the Company's information security efforts to ensure that nonpublic consumer information is protected. See Appendix A for applicable statutes, regulations and bulletins.

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Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed documentation supporting the Company's information technology security policies and procedures. Review of information technology access and authorization controls is included in the scope of the Division's ongoing statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-18. All data required to be reported to departments of insurance is complete and accurate.
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Objective: This Standard addresses the Company's annual reporting of statutorily-required MCAS personal lines data. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA reviewed the 2018 Massachusetts MCAS data for unusual results and data consistency.

Transaction Testing Results:

Findings: None.

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Observations: RNA's review of the Company's 2018 Massachusetts MCAS data indicated that underwriting and claims data appeared reasonable and consistent with examination data. RNA's review of the homeowners underwriting, and claims data filed with the Division indicated no unusual data or concerns.

Recommendations: None.

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II. COMPLAINT HANDLING

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

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

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

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

- The Company defines a complaint as any written expression of a grievance received from the Division, the Massachusetts Attorney General, the Better Business Bureau, or directly from an insured or third-party claimant.
- Concerns expressed by phone in operational areas are handled there and are not recorded in the complaint register.
- The Company uses social media to promote brand awareness. The Enterprise Contact Center monitors social media sites and responds to any negative posts within 24 hours by providing information on how to contact the Company with claim or policy specific information using confidential e-mail. These comments are tracked, but not included in the complaint register.
- Complaint handling is coordinated by the compliance unit, which is part of the Corporate Legal Department. A team of six compliance specialists receive notification of complaints via regular mail, email, and fax, and these are logged into the complaint register to track response due dates, the nature of the complaint, the disposition, and other elements. The compliance specialists provide the complaint to various operational areas for handling.
- All complaint responses require review and approval at the manager level before sending the response to the third party. A copy of the response is sent to the compliance specialists to complete the remaining data elements in the complaint register. Also, the Company tracks M.G.L. c. § 93A assertions in a separate log, to ensure that responses are timely.
- In accordance with statutory requirements, the Company's complaint records include a record of all complaints received noting 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.
- The Company reviews all complaint activity for identification of any recurring or systemic issues for referral to the Corporate Legal Department. The Director of Compliance, Director of Technical Services, and Senior Manager of National Underwriting separately review all complaints to identify any trends or emerging issues. Any complaints that involve interpretation of a legal matter are also sent to the Corporate Legal Department for review. Additionally, the compliance unit provides a quarterly summary complaint report, which is shared with the Chief Compliance Officer and leaders in the claims, underwriting, premium accounting areas.

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.

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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 the Company's 2018 complaint register to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's 2018 complaint register to determine whether it properly contained all Division complaints.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA tested 30 complaints from 2018 to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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 tested 30 complaints from 2018 to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints tested. Documentation for the complaints appeared complete, including the original complaints and related correspondence. Policyholders and consumers with similar fact patterns appeared to be treated consistently and fairly.

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

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 tested 30 complaints from 2018 to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company appeared to address timely each of the tested Division complaints. Complaints sent directly to the Company also appeared to be addressed timely. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

III. MARKETING AND SALES

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

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

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

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

- The Company conducts brand awareness advertising to the general public through local radio and television, digital advertising, sponsorships of highway assistance, sports and other events, product brochures, and selected social media. The Company provides general insurance awareness and safety tips in its postings on social media, and its television ads are shown on its YouTube channel.
- The Company purchases a small number of leads for the internal call center to contact, and provides its preferred agents with these policies for future sales and service. Internet traffic is also directed to the Company's website for the same purpose.
- Advertising to the general public is also provided by agencies, who may use Company co-op advertising, either through template advertisements developed by the Company, or by a service retained by the agency and approved by the Company.
- All Company advertising and sales materials, along with specifically-developed advertising by the Company's agencies, where the Company name and logo are used, are reviewed and documented by the Corporate Communications Department with approval of the Manager, Corporate Marketing Communications, the Corporate Legal Department, and the Assistant Vice President, Business Development-Northeast Region.
- The Company discloses 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 sales and marketing. RNA also reviewed the Company's website and social media for disclosure of its name and address, and sought any sales and marketing materials noted as part of new and renewal business testing, for any evidence of use of unapproved sales and marketing materials.

Transaction Testing Results:

Findings: None.

Observations: The use of social media sites was limited to promoting brand awareness, and the Company's website disclosure complies with Division requirements. Finally, RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

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

Objective: This Standard addresses whether the Company's producer training materials are in compliance with state statutes, rules and regulations. See Appendix A for applicable statutes, regulations and bulletins.

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

- Independent agency and producer relationships are managed through nine Massachusetts business development representatives, who regularly visit the producers to provide guidance and training on products, processes and sales assistance.
- The Company conducts training of new and existing producers through webinars, where the Company's products, systems and processing procedures are discussed. Also, e-learn videos are available to agents.
- Continuing education requirement compliance is monitored by the producers.

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 sales and marketing, and for providing training to independent agencies.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's producer training process appears reasonable and appropriate.

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 Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for sales and marketing, and for providing communications to independent agencies. RNA also reviewed any producer communications for reasonableness as part of new and renewal business testing.

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Transaction Testing Results:

Findings: None.

Observations: Based on review, procedures for independent agency communications appear appropriate and reasonable. RNA noted no evidence of the use of unreasonable producer communications as part of new and renewal business testing.

Recommendations: None.

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

Objective: This Standard addresses the Company's marketing to individuals as members of employer or other groups by the Company's producers in accordance with regulatory requirements and Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to individuals, who are members of employer or other groups.
- The Company's mass marketing plans are filed with the Division for approval.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements for mass marketing plans offered to individuals who are members of employer or other groups.

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 implementation of mass marketing plans offered to individuals, who are members of employer or other groups. RNA tested affinity discounts granted to such individuals as part of new and renewal business to ensure that the discounts agreed to those approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, procedures for implementation of mass marketing plan offered to individuals, who are members of employer and other groups were appropriate and reasonable. As part of new and renewal business, RNA noted seven policies where affinity discounts were provided to insureds.

Recommendations: None.

IV. PRODUCER LICENSING

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

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

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

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

- The Company's sales distribution is primarily through independent agencies and agents, although producers, who are not appointed as agents are used on a limited basis.
- When making the decision to expand its agency force to further penetrate certain markets, the Company will look for producers who can meet a minimum premium volume commitment and have a demonstrated ability to be profitable. Approximately 25 new agency appointments are added each year in Massachusetts.
- When the Company identifies a licensed business entity or individual producer for contracting, a commitment letter containing joint goals for the Company and the producer is signed.
- The Company's standard agency contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, advertising, indemnification, underwriting policies, expirations ownership, and the maintenance of \$1 million in errors and omissions coverage. A more limited broker contract is used for producers, who are not appointed as agents.
- All agencies or agents are appointed through the Division's On-Line Producer Appointment ("OPRA") System.
- The Company maintains an access database of agencies and agents' license expiration dates, and the Company reviews that information along with OPRA System monthly. The Licensing and Contracting Team ensures compliance with these requirements, and will follow up if documentation of license renewal is not received timely from the agencies and agents.
- The Company prepares a monthly reconciliation of its appointment list to the Division's OPRA System.
- Agent commissions are paid monthly based on new and renewal written premium on the policy effective date. Chargebacks are made for policies cancelled mid-term.

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 selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to determine whether the agent for each policy was included on the Division's list of the Company's appointed agencies or agents, or if the non-appointed producer was properly licensed.

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Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's independent agencies and agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA System. Any sales by non-appointed producers were properly licensed.

Recommendations: None.

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

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

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

- Independent agency and producer relationships are managed through nine Massachusetts business development representatives, who regularly visit the producers to provide guidance and training on products, processes and sales assistance.
- The Company conducts training of new and existing producers through webinars, where the Company's products, systems and processing procedures are discussed. Also, e-learn videos are available to agents.
- Continuing education requirement compliance is monitored by the producers.

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, agent appointments, and continuing education. RNA also reviewed the standard independent agency contract and the limited broker contract for responsibility related to continuing education requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, independent agencies, agents and producers are solely responsible for monitoring and maintaining compliance with the Division's producer continuing education requirements.

Recommendations: None.

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

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

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

- All Massachusetts agency and agent terminations are processed through the Division's OPRA System, using the date that new and renewal business is no longer accepted by the Company.
- Business generated by the agent may be serviced for up to one year after the termination of the appointment.
- The Company's policy is to give written notice to all agencies and agents whose appointments are terminated. Appointment terminations are processed in accordance with the contract, which generally requires 180 days to terminate the appointment, unless a different period is agreed upon.
- The Company's policy is to give additional information to the Division about agencies and agents whose appointments are terminated "for cause" including the reason for the termination.
- The Company prepares a monthly reconciliation of its appointment list to the Division's OPRA System. Any corrections are processed through the OPRA System.

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 appointment termination processing. RNA selected all five agency and agent appointment terminations from 2018, and compared those to information on the Division's appointment termination records. Further, RNA reviewed evidence that notices to the Division and the agents complied with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company properly notified the Division of agent terminations through the OPRA System, in compliance with statutory requirements. Also, the notices to the agents met statutory requirements.

Recommendations: None.

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

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

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

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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 25 private passenger automobile policies, 25 homeowners policies issued or renewed, and five agency and agent appointment terminations during the examination period, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's producer appointment and termination policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, no evidence of unfair discrimination against policyholders was noted based on the Company's producer appointment and termination policies.

Recommendations: None.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and appointment termination processing. RNA selected five agency and agent appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agency and agent that was terminated "for cause" during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's internal records adequately document reasons for appointment terminations. None of the tested appointment terminations was "for cause".

Recommendations: None.

Standard IV-6. Producer account balances are in accordance with the producer's contract with the insurer.
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No work performed. This Standard is not covered in the scope of examination because the Company's direct bills substantially all personal lines premium. Thus, excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the Division's statutory financial examination of the Company.

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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.

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

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

- The Company's private passenger auto and homeowners policy premiums are generally direct billed to customers, who can either pay the premium in full at inception and upon renewal, or make payments in installments. Payments are accepted using a check, ACH, credit card, debit card and electronic funds transfer. ACH, credit card and debit card payments are accepted through the Company's website, mobile application, and by phone.
- For private passenger automobile, the maximum number of installments is 12; for homeowners, the number of installments is 12, or three. New business generally requires a 20% down payment to ensure adequate equity.
- Installment billing notices are sent to customers approximately 20 days in advance of the due date. After any five-day delinquency, a 23-day notice of statutory cancellation is sent asking the policyholder to make a payment. For renewal policyholders, Company policy allows policyholders to miss one installment payment plus five days, before a 23-day notice of statutory cancellation is sent. If no payment is received within the 23-day period, the policy is cancelled.
- The Company reports uncollected earned private passenger automobile premium to the Registry of Motor Vehicles ("RMV") and does not report such delinquencies to consumer reporting agencies.
- The Company allows its independent agents to use Enterprise Contact Centers to process endorsements and other requests, in exchange for reduced commissions.
- The Company answers general questions about the insured's billing, and can make requested billing method and payment plan changes.
- The Company has developed standards for billing and collections, and monitors compliance with those standards.

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 reviewed billing notice dates in conjunction with new and renewal business testing.

Transaction Testing Results:

Findings: None.

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

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Recommendations: None.

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

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

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

- Policyholders must cancel coverage through their agencies and agents. Policyholders may cancel private passenger automobile policy after providing a Form 2A, "Notice of Transfer of Coverage", a returned plate receipt showing proof that the vehicle has been taken out of service, or evidence that the policyholder has moved out of Massachusetts. Any unearned premium is refunded to the policyholder on a pro-rata basis, or on a short rate table basis in accordance with CAR Rules.
- Requests to cancel homeowners coverage is processed by the agencies through a signed written request to cancel coverage, with unearned premium refunded on a pro-rata 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 policyholder service, and tested eight private passenger automobile and seven homeowners insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's agencies contractually have the primary relationship with the policyholder, and as such, policyholders request endorsements and policy changes through the agencies. Policyholders requesting such changes through the Company are transferred to the agencies for servicing.
- All policyholder service requests and correspondence, except for annual mileage updates, billing address changes, billing method and payment plan changes, or billing questions are referred to the agencies for handling.
- The Company monitors customer service call centers to ensure that adequate resources are available to address customer inquiries.

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 procedures with Company personnel and reviewed correspondence in conjunction with underwriting, rating, and policyholder service standards. Additionally, RNA obtained documentation showing customer service correspondence in conjunction with new and renewal business, and claims testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. The Company has not entered into assumption reinsurance agreements.

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

Objective: This Standard addresses procedures for the accurate and complete processing of policy transactions. Objectives pertaining to policy issuance, renewals and endorsements are included in Standard VI-6. Billing transactions are reviewed in Standard V-1. Insured-requested cancellations and return of premium are tested in Standard V-2. Company-initiated cancellations and non-renewals are tested in Standard VI-8. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

- The Company researches its systems and RMV records for an updated address when returned mail is received. Agencies are also notified of the returned mail, and asked to contact the customer to obtain a correct address for future mailings, and make address changes.
- When premium notices and premium checks are returned as undeliverable, the Company will use its systems to locate a more current mailing address to mail bills, cancellation notices, and premium checks to the insured. If a better address is found, the mail is resent using the new address.
- Premium refund checks not cashed after six months are considered stale, but remain on the Company's outstanding check list. Un-cashed claim checks are initially handled in the claims department prior to referral to the treasury department for tracking, which uses a software tracker system to monitor the aging of un-cashed checks, and to comply with abandoned property laws.
- Six months prior to escheatment, a final letter is sent to the last address notifying the payee that the check is still outstanding and will be escheated shortly. Once these efforts are exhausted and after three years, the funds are deemed abandoned property and escheated.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.

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 the Company's procedures for locating missing policyholders and claimants, and for escheating funds, and reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company appears to have processes for locating missing policyholders and claimants, and appears to make efforts to locate such individuals. The Company appears to report unclaimed items and escheat them as required by statute.

Recommendations: None.

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

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

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

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

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

- The Company's agencies have access to policyholders' claims history and paid loss information.
- The Company asks the agencies to provide a policyholder with his or her claims history and paid loss information, when requested.

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. Further, RNA reviewed claim documentation for any evidence of the Company being non-responsive to policyholder inquiries on claim history and paid loss information in testing of underwriting and rating, claims, complaints, and policyholder service.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- The Company has provided producers with personal lines underwriting requirements for their use.
- To obtain personal lines insurance quotes, producers may use either the Company's agent portal or a third party comparative rating service. Generally, producers electronically submit application information with the signed applications retained in the producers' files. The application forms are approved by the Division.
- Private passenger automobile underwriting is generally automated with most applications accepted, electronically rated, and processed using standard underwriting algorithms.
- The Company's private passenger automobile underwriting system interfaces with the RMV systems to obtain real-time driver history and claim information.
- The Company has many Division-approved affinity groups and related discounts. Individual risks within these groups cannot be cancelled or non-renewed.
- The Company uses the standard Massachusetts merit rating system with the MRB Safe Driver Insurance Plan ("SDIP") applied to its policies.
- Private passenger automobile rates are based on the Automobile Insurer's Bureau of Massachusetts ("AIB") Manual with modifications, with all rates filed with the Division prior to use. Motorcycle rating for comprehensive and collision coverages is based on original cost new and annual depreciation factors.
- Private passenger automobile underwriting criteria include license status, driving history, and driver experience, among other factors. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents. The Company ensures that an at-fault driver is provided a "Surcharge Notice" notifying him or her that the at-fault accident will impact the driver's SDIP, and that the driver may appeal the at-fault determination to the Board of Appeal. Also, at-fault accident determinations are reported to the CLUE database weekly using a LexisNexis automated process. Further, the Company identifies vacated surcharges from the Board of Appeal and completes processing for those transactions.

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- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules of Operation.
- Time and service standards for issuance of private passenger automobile policies have been established. The Company's underwriting staff review private passenger automobile applications as needed, and answer questions from agents. Authority limits are assigned to each underwriter. Underwriting managers perform supervisory reviews of the staff underwriters' work.
- For homeowners applications, the agents review CLUE loss history, evaluate underwriting company placement, obtain a replacement cost analysis and a distance-to-coast report as needed, to provide a quote and a binding offer to the applicant. Applications are signed by the applicant, with the original signed application retained by the agent for five years.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for security and safety features, electronic processing, loss-free policies, and higher deductibles.
- The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting. If the applicant does not meet the required minimum insurance score, the Company provides the applicant with a Fair Credit Reporting Act ("FCRA") adverse action notice, and provides a copy of that notice to the agent.
- Homeowners rates are based on Massachusetts ISO data, and the Company's competitive analysis of market rates. The Company's homeowners rates and policy forms are filed with the Division for review and prior approval. Rates are developed using actuarial guidelines and principles, and are tested by manually rating policies prior to use.
- Property inspections are completed for all new risks exceeding \$800,000, including an interior and systems inspection. New risks under \$800,000 may be inspected in accordance with Company inspection criteria. Inspections are to be completed within the first 60 days of coverage.
- The Company's underwriting staff is ultimately responsible for approval of Massachusetts homeowners applications. Appropriate authority limits are assigned to each underwriter. Time and service standards for all key processing activity have been established. The personal lines underwriting staff review approximately 20% of the new business applications submitted for adequate coverage when compared to replacement cost, needed inspections, specific endorsements and other documentation. Underwriting managers also perform supervisory reviews of the staff underwriters' work, and review any risks in accordance with assigned authority limits.
- For homeowners business, the Northeast regional personal lines underwriting staff has established a quality assurance process, where approximately 850 policies and endorsements are annually reviewed, with each underwriter covered, with a minimum of 10 items per quarter. The results are used for training and performance evaluation purposes. The national personal lines underwriting team reviews the regional quality assurance process to ensure that it is functioning as intended.

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 and rating processes. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. For each of these test selections, RNA verified that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate. RNA also tested 40 vacated at-fault accident determinations by the Board of Appeal for accurate and timely reversal of premium surcharges, and for timely reporting to CLUE. Additionally, during private passenger automobile claims testing, RNA assessed whether at-fault accident determinations were properly reported to the MRB with Surcharge Notices timely provided to operators in accordance with statutory and regulatory requirements.

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Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums indicated that premiums were properly calculated. Also, testing of vacated surcharges indicated that at-fault determinations reversed by the Board of Appeal were properly and timely processed in accordance with statutory and regulatory requirements. CLUE reporting of vacated at-fault accident determinations was timely; however, four at-fault changes were not timely reported to CLUE, because the Company did not receive manual notice of the vacated at-fault accident determinations from the Board of Appeal. Finally, through claims testing it was determined that at-fault accident determinations and comprehensive claims were timely reported to the MRB, and Surcharge Notices were properly provided to at-fault operators.

Recommendation: The Company should implement process improvements to ensure that all vacated at-fault determinations are identified and timely reported to CLUE in accordance with Bulletin 2010-11.

Subsequent Company Action: The Company has implemented process improvements to ensure timely reporting to CLUE of vacated at-fault accident determinations.

Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.
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Objective: This Standard addresses whether all mandated disclosures for rates and coverages are timely provided to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system controls are designed to ensure that new business submissions are accurate and complete, including the use of all required forms.
- The Company provides private passenger automobile information guides and other sales disclosures to consumers electronically or by mail.
- The Company's insurance policies and attachments provide disclosures as required by statutory and regulatory guidelines.

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 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

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Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has procedures for paying producer 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 conjunction with new and renewal business testing, RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to review commissions paid to agencies, and for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses the AIB Massachusetts private passenger automobile form, which has been approved by the Division.
- Company policy requires that all private passenger automobile and homeowners policy forms and endorsements be filed and approved by the Division prior to use.
- Approved private passenger automobile and homeowners forms and endorsements are required to be used 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 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating. Underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- Any changes in policy coverage must be requested through the agencies and producers.
- The Company waives pre-damage inspections for nearly all private passenger automobile applications in accordance with the Company's Division approved underwriting and rating plan.
- Time and service standards for issuance of policies have been established.
- The Company's underwriting staff review private passenger automobile applications as needed, and the personal lines underwriting staff review approximately 20% of the homeowners new business applications. Underwriting managers perform supervisory reviews of the staff underwriters' work.
- For homeowners business, the Northeast regional personal lines underwriting staff has established a quality assurance process, where approximately 850 policies and endorsements are annually reviewed, with each underwriter covered, with a minimum of 10 items per quarter. The results are used for training and performance evaluation purposes. The national personal lines underwriting team reviews the regional quality assurance process to ensure that it is functioning as intended.

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 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements. Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- Applications for private passenger and homeowners coverage may be declined by the producer on the Company's behalf, or by the underwriting department, if the risks do not meet the Company's underwriting guidelines.
- Producers provide a written or oral declination notice to the private passenger automobile applicant noting the reason that the application is rejected.
- The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting. If the applicant does not meet the required minimum insurance score, the Company provides the applicant with a FCRA adverse action notice, and provides a copy of that notice to the agent.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 15 private passenger automobile declinations processed during the examination period, to ensure that declinations were not unfairly discriminatory. RNA selected 35 homeowners declinations processed during the examination period for unacceptable insurance score, to ensure that declinations were not unfairly discriminatory, and to ensure that a written FCRA adverse action notice was timely provided.

Transaction Testing Results:

Findings: None.

Observations: Testing of 15 private passenger automobile declinations indicated that the declinations met the Company's underwriting guidelines, and written or oral notices were provided to the applicants. Testing of 35 homeowners declinations for unacceptable insurance score indicated that the declinations met the Company's underwriting guidelines, and written FCRA adverse action notices were timely provided.

Recommendations: None.

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

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. Declination procedures are reviewed in Standard VI-7. See Appendix A for applicable statutes, regulations and bulletins.

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

- Private passenger automobile cancellations for underwriting are usually for driver license suspension, material misrepresentation, auto registration suspension or revocation, earned premium owed to a prior auto insurer, or invalid registration. In these instances, a notice of cancellation, including the specific reason, is sent to the policyholder and the agent at least 23 days prior to cancellation.
- Homeowners cancellations for underwriting after policy inception are generally issued within the first 60 days of coverage, for inspection violations or information not known or disclosed at binding. After 60 days, cancellations are generally made for material misrepresentation in the application of insurance, usually noted after the filing of a claim. In these instances, notices of cancellation, including the specific reason, are sent to the insureds at least five days prior to cancellation, with a copy of the notices sent to the agents. Mortgagees are also notified of the cancellations by the Company at least 20 days prior to the cancellations.
- All cancellation notices are reviewed by the Northeast regional quality assurance teams.
- For risks not meeting underwriting requirements at renewal, the non-renewal notice, including the specific reason, is provided to the agency at least 45 days prior to renewal, with the agency having 15 days to give notice of non-renewal to the policyholder, or to replace coverage. All non-renewal notices are reviewed by the Northeast regional quality assurance teams.

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. For testing, RNA selected 10 private passenger automobile cancellations, 20 homeowners company-initiated cancellations, 15 private passenger automobile non-renewals, and 30 homeowners non-renewals. All transactions were evaluated for compliance with statutory requirements.

Transaction Testing Results:

Findings: RNA testing indicated that one private passenger automobile non-renewal notice did not include a specific reason on the notice in violation of 211 CMR 97.

Observations: For the company-initiated cancellations and non-renewals within the transactions tested, other than as noted above, the Company provided timely and adequate notice to the agencies or policyholders, with the specific reasons for the cancellations or non-renewals properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

Required Action: The Company shall remind its staff and the agents of the requirements of 211 CMR 97 in this regard, and ensure that each non-renewal notice has a specific reason listed on the notice, in accordance with Massachusetts Laws and Regulations.

Subsequent Company Actions: The Company agrees with the required action, and will ensure that specific reasons are listed on all non-renewal notices.

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

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

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

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements. Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company states that although rare, rescissions, are usually related to claims filed where material misrepresentations were made by the insureds. All rescissions are approved by the Corporate Legal Department.

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 discussed procedures for rescissions.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, policies and procedures for rescissions appear reasonable.

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in the application of premium discounts and surcharges. See Standard VI-1 for testing of premium rating and unfair discrimination. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

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

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

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

Standard VI-14. Verification of experience modification factors.

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

Standard VI-15. Verification of loss reporting.

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

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

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

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

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

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

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges

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determined at, or near, the inception of coverage. Written 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 25 private passenger automobile policies and 25 homeowners 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. RNA also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

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

Recommendation: None.

Standard VI-18. Audits, when required, are conducted accurately and timely.
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Objective: This Standard addresses whether audits are conducted accurately and timely. See Standard I-1 for external audits, internal audits and quality assurance audits within the Company's operational areas. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

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

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

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.

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- The agencies are responsible for obtaining the VIN and vehicle symbol when the application is completed.
- The Company's underwriting system compares the VIN and vehicle 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 25 private passenger automobile policies issued during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VI-21. The regulated entity does not engage in collusive or anti-competitive underwriting practices.
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Objective: This Standard addresses whether the Company has engaged in any collusive or anti-competitive underwriting practices. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements. Written 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 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting for mass marketing plans offered individuals as members of employer or other groups. See Standard VI-7 for testing of declinations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to individuals who are members of employer or other groups.
- The Company's mass marketing plans are filed with the Division for approval.
- The Company uses affinity discounts to market its policies to individuals who are members of employer or other groups.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements for mass marketing plans.

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 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to ensure that underwriting practices for plans offered to individuals who are members of employer or other groups were not unfairly discriminatory. RNA reviewed affinity discounts granted to such individuals as part of new and renewal business, to ensure that the discounts agreed to those approved by the Division. During this testing, RNA sought evidence of any unfair discrimination in underwriting these policies and examined evidence of the Division's approval of the affinity premium discounts.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting practices for mass marketing plans offered to individuals, who are members of employer or other groups are unfairly discriminatory. All affinity premium discounts were applied properly and approved by the Division.

Recommendations: None.

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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.

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

Standard VI-25. All policies are correctly coded.

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

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

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company has processes to reconcile statistical and financial data, to correct data coding errors, and to make subsequent reporting changes, as needed.
- The Company's policy is to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB, CAR, and ISO.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.

Controls Reliance: Controls tested 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 the statistical reporting process. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- Agencies retain signed applications in their files, and their files are subject to audit by the Company.
- Underwriting systems controls are designed to ensure electronic applications are complete.
- Certain risks are referred to the underwriting department to determine whether they should be accepted or rejected.

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 five private passenger automobile and five homeowners applications and requested the signed applications from the agents.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and 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.

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

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

- The Company's claims department consists of approximately 930 employees across all states/affiliates, organized as follows: physical damage, casualty, property, no-fault, material damage (vehicle appraisal), subrogation, SIU, and CEAT. Massachusetts physical damage, casualty and no-fault claims are handled in the Northeast Region, with all other areas supported by a National Claims team.
- Each of the claims units has at least one Claims Manager that reports to a Director, an Assistant Vice President, or Vice President, who reports to the Senior Vice President. The claims handling employees are organized in teams with a supervisory structure to ensure that settlement authorities and procedures are followed. The Company utilizes field adjusters and independent appraisers to supplement its employee field staff. Claims involving complex liability and commercial liability claims are assigned to a special unit within the National Claims team.
- Written policies and procedures govern claims handling processes. The vast majority of claims first notice of loss are reported to the Enterprise Contact Center through an 800 claims service number, or through the Company's website. Many claims are reported to producers, who are encouraged to refer the claimants to the 800 number, to provide the quickest possible response. The agents may report the claim through the on-line reporting portal, or by faxing or mailing an Acord form. Claimants may also file a claim through a phone application.
- A claim number is established, and key information, such as the claimant's name, policyholder information, policy number, accident date, location, and extent of injuries are obtained and recorded in the electronic claims processing system, which includes a claim diary and history notes.
- Claims are investigated to determine existence of coverage, and an initial liability determination is made. Drive-in appraisal facilities are used in conjunction with employee and independent appraisers. Field and independent claim adjusters provide on-site-inspections and claim investigations. The adjusters are provided written procedures and detailed instructions covering performance tasks, and timeframes for completion. Claims adjusters are to contact the claimants the same day or the next business day. The Company contracts with vendors for services related to auto glass claims and car rental coverage.
- Individual claim settlement authority limits are assigned commensurate with claims adjusters' experience. Claims adjusters are responsible for verifying coverage, coordinating claim investigations, establishing liability, and determining damages.
- The Company uses an internally-developed bodily injury evaluation methodology to document the claim. The Company's policy is to make settlement offers between the low and high settlement estimates, and to track all revisions to the estimates. Any exceptions are to be reviewed with management. Claims supervisors review each active bodily injury claim with a \$250,000/\$500,000

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or greater exposure after the initial 25 days. Supervisors are required to review claims at periodic points, including at six and 15 months.

- The Company also utilizes seven experienced claim staff from CEAT, who review certain claims with subjective evaluations or complex issues, and help manage large or complex files.
- The Company follows standard industry and CAR claim handling guidelines in its claim investigations, including the application of Massachusetts regulatory standards of fault. Information from police reports, witness statements, photographic evidence, and consumer reporting agencies are used to evaluate the claim.
- Company policy is to comply with CAR settlement performance standards. The Company is subject to audits from CAR for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and paying a claim.
- The Company ensures that an at-fault driver is provided a “Surcharge Notice” notifying him or her that the at-fault accident will impact the driver's SDIP, and that the driver may appeal the at-fault determination to the Board of Appeal. Also, at-fault accident determinations are reported to the CLUE database weekly using a LexisNexis automated process.
- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database, and reports required claims to the Merit Rating Board as required in Massachusetts.
- The Company has established a SIU within the home office claims department to detect, investigate, and deter fraudulent claim activity. The SIU supports the claims operations with field investigations and surveillance using approved vendors. Claim professionals receive training regarding SIU red flags, and also use judgment to make referrals to SIU using a standard form. If the claim is accepted by SIU, the claim is transferred from the assigned adjuster to the SIU adjuster. The SIU consults with fraud counsel and the legal department regularly.
- All auto theft claims are reported through ISO to the NICB. The SIU is responsible to refer fraudulent claims to the NICB and the Insurance Fraud Bureau, in cases where fraud is believed to have occurred, to assist with criminal investigation and prosecution. OFAC checks for claimants are completed daily against the SDN database using Accuity’s Vessel Enhancement List software.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise. Department of Revenue checks are performed as required by statute, and are documented in the claim files. Also, underwriting risk referrals are made to the underwriting department as necessary.
- Liability releases are not obtained from insureds, unless the claim involves other parties who were underinsured or not insured. Third party property damage claimants are generally not required to sign a liability release, unless there is a settlement dispute or a large real property claim. Releases are routinely required from third party bodily injury claimants.
- Criteria for unit supervisor and manager periodic reviews of the claim adjusters’ work have been established, and such reviews are documented in the claim systems. The Company produces trending reports for daily, weekly and monthly reporting of key service and quality metrics.
- The Company has also established a Northeast Region quality assurance program, whereby a set number of open and closed claim files for each employee are reviewed by supervisors each month. The results are documented and scored in checklist, and results are reported for each adjuster for use by claims management as part of the employee training and performance evaluation processes. In addition, the CEAT reviews the Northeast Region quality assurance results, validates the accuracy and completeness of the trending reports, conducts monthly qualitative reviews of claims handling processes, and completes projects identified by management related to claims, such as review of total loss thefts. The CEAT audits include sampling of actual files and testing of defined claim handling standards. Audit reports are issued on the audits performed noting audit results and process improvement recommendations. The CEAT also conducts routine training on the claims systems and claims processing.
- Claims auditing related to compliance issues are performed by a separate claims audit unit within the Corporate Compliance Department.

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- The Company conducts post-claim payment surveys to all first party claimants, except for bodily injury claims or claims where the claimant is represented by counsel. The survey results are summarized for management reporting. Any negative comments from respondents are tracked, addressed and 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 to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

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Observations: Based upon testing, claims were investigated timely according to the Company's policies and statutory requirements.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was resolved in a timely manner in accordance with Company's policies and statutory requirements related to timely handling. Based upon testing, it appears that the Company's processes for timely handling claims are generally functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-

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without-payment claims, and 10 open claims for testing. RNA tested each selected claim noting whether the Company timely responded to general claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company timely responded to general claim correspondence. Based upon testing, it appears that the Company's processes for providing timely responses to general claims correspondence are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was adequately documented according to the Company's policies and procedures. It appears that the Company's processes for documenting claim files are generally 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 HIPPA), rules and regulations.

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee, and whether the Company meets specific Massachusetts regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

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Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA reviewed the file for each selected claim, and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, RNA reviewed the Company's complaint log for complaints that were claim-related and tested 19 claim-related complaints.

Transaction Testing Results:

Findings: RNA testing noted that eight homeowners property claims files had no evidence that notice letters were provided to municipal authorities in violation of M.G.L. c. 139, § 3B. An additional claim included a notice letter that was not provided timely.

Observations: Except as noted above, RNA noted each of the tested claims was handled according to policy provisions and statutory requirements. Based upon testing and except as noted above, it appears that the Company handles claims in accordance with policy provisions and statutory requirements. Finally, upon evaluation of claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall review its controls and procedures, and make any necessary changes to ensure that timely municipal letters are issued. Also, the Company shall provide training and guidance to staff about issuance of these letters. Finally, the Company shall conduct a detailed internal audit by December 31, 2020, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company has adopted new procedures to address these findings, and will complete the audit as requested.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA reviewed the file for each selected claim,

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and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner. The Division's financial examiners and actuaries are also testing reserving in conjunction with the ongoing financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: 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 it relates to appropriate claim handling practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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Observations: RNA noted that the Company does not use claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check. Full claim settlement attestation is required for certain liability claims through a written settlement agreement. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

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Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted one private passenger automobile claim where a reservation of rights letter was used, and one homeowners claim where an excess of loss letter was used. The use of the letters appeared appropriate. RNA noted no instances where reservation of rights or excess of loss letters should have been used, but were not. Based upon review and testing, it appears that the Company's processes for utilizing excess of loss and reservation of rights 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 whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted none of the claims resulted in reimbursement of the insured's deductible due to subrogation, and we noted no instances where the deductible should have been reimbursed, but was not. Based upon review and testing, it appears that the Company's processes for making deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

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Recommendations: None.

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

Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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SUMMARY

Based upon the procedures performed in this examination, 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 *2018 NAIC Market Regulation Handbooks*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Underwriting and Rating, and in Claims.

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ACKNOWLEDGEMENT

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

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

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



Mark G. Noller, CIE
Principal, Rudmose & Noller Advisors, LLC