



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

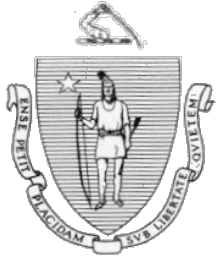
Report on the Comprehensive Market Conduct Examination of
Metropolitan Property and Casualty Insurance Company
Warwick, Rhode Island
For the Period January 1, 2011 through December 31, 2011

NAIC COMPANY CODE: 26298

EMPLOYER ID NUMBER: 13-2725441

TABLE OF CONTENTS

	PAGE
SALUTATION	3
SCOPE OF EXAMINATION	4
EXAMINATION APPROACH	4
EXECUTIVE SUMMARY	5
COMPANY BACKGROUND	8
COMPANY OPERATIONS/MANAGEMENT	9
COMPLAINT HANDLING	21
MARKETING AND SALES	24
PRODUCER LICENSING	28
POLICYHOLDER SERVICE	32
UNDERWRITING AND RATING	38
CLAIMS	53
SUMMARY	63
ACKNOWLEDGMENT	64
APPENDIX A – PROPERTY CASUALTY EXAMINATION STANDARDS AND MASSACHUSETTS AUTHORITIES	



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

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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

November 15, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Murphy:

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

METROPOLITAN PROPERTY AND CASUALTY INSURANCE COMPANY

at their home offices located at:

700 Quaker Lane
Warwick, Rhode Island 02887

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of Metropolitan Property and Casualty Insurance Company (the “Company”) for the period January 1, 2011 to December 31, 2011. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination also evaluated the Company’s compliance with requirements from previous Regulatory Settlement Agreements between the Company and the Division. The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete the examination.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2011 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the domiciliary regulator’s financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the domiciliary regulator’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.

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. The body of the report also discusses the Company's compliance with requirements from previous Regulatory Settlement Agreements between the Company and the Division. 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 with regard to complaint handling, marketing and sales, producer licensing, or policyholder service. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in the examination. Further, the tested Company practices appear to meet industry best practices in these areas.

SECTION I-COMPANY OPERATIONS/MANAGEMENT

STANDARD I-18

Findings: None.

Observations: Based upon RNA's review of the Company's underwriting and claims processing and the 2011 homeowners underwriting and claims data, no unusual results and concerns were noted, and the statutorily-required data reported to the Division appears to be reasonably complete and accurate. RNA's review of the Company's 2011 NAIC Market Conduct Annual Statement ("MCAS") Massachusetts data indicated no unusual underwriting or claims data, although the number of private passenger automobile and homeowner non-renewals were overstated showing the number of non-renewals over several years.

Required Actions: The Company shall adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems.

Subsequent Company Actions: The Company is adopting new procedures as noted in the required actions and has re-filed its 2011 MCAS data with the NAIC.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: RNA testing indicated that vacated surcharges by the Board of Appeal for 17 consumers were not properly and timely reversed in accordance with M.G.L. c. 175E, § 7A and Division Bulletin 2010-11.

Observations: Based upon testing, except as noted above, the Company appears to calculate policy premiums, discounts, and at-fault accident surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. In addition, testing of vacated surcharges indicated that 96 of 113 vacated surcharges by the Board of Appeal were properly and timely reversed, as applicable. Finally, the Company no longer shares at-fault accident determinations with consumer reporting agencies, so the Company is not required to provide at-fault accident determination updates to them when the Board of Appeal vacates at-fault accident surcharges.

Required Actions: The Company shall adopt new procedures to ensure that premium refunds for vacated surcharges by the Board of Appeal are timely and properly processed. Additionally, the Company shall provide training or guidance to staff about these new procedures. The Company shall review all vacated surcharges since 2003 to ensure that all required premium reversals have been properly applied. Any premiums due to consumers shall be paid to them plus 6% interest. The results of this review shall be reported to the Division. The Company shall complete an independent assessment of the effectiveness of the new vacated surcharge reversal procedures by March 31, 2014 and report the results of the assessment to the Division. Finally, the Company shall adopt a new procedure to complete an annual review and comparison of its vacated surcharge data with data directly obtained from the Board of Appeal. The review shall include a transactional validation process to ensure accurate and timely removal of vacated surcharges.

Subsequent Company Actions: The Company is providing premium refunds to the above identified consumers and is reviewing the vacated surcharges since 2003 to ensure that all vacated surcharges have been properly applied. Interest at 6% is also being paid. Further, the Company is adopting new procedures to ensure that premium refunds are timely processed for vacated surcharges and is providing guidance to staff about the new procedures. Finally, the Company states it will complete the required assessments and report the results to the Division as noted in the required actions.

STANDARD VI-7

Findings: None.

Observations: Based upon testing, private passenger automobile and homeowners declination decisions were generally made in accordance with statutory requirements and the Company's underwriting guidelines. One private passenger automobile applicant was improperly denied coverage in violation of the Company's underwriting guidelines. All remaining declined applicants received either written or oral declination notices. Based upon testing and review of the information available, the Company's declinations generally were not unfairly discriminatory.

Recommendations: The Company should provide guidance to the customer service and underwriting staff about review of Massachusetts private passenger automobile applications in accordance with underwriting guidelines to ensure compliance with such guidelines. Also, the Company should adopt consistent policies and procedures for the delivery and format of homeowners declination notices. We recommend the use of written declination notices.

SECTION VII-CLAIMS

STANDARD VII-6

Findings: Testing indicated that 12 tested homeowners claims over \$1,000 were not properly and timely reported to local building and health authorities to disclose a dangerous condition in accordance with M.G.L. c. 139, § 3B.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures except as noted above. Based upon testing, it appears that the Company's processes for handling claims are generally functioning in accordance with its policies, procedures and statutory requirements. Finally, upon evaluation of 14 claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall adopt a specific policy and new control procedures to address the requirements of M.G.L. c. 139, § 3B and provide training or guidance to claims adjusters on proper and timely implementation of these policy and procedures. The new procedures shall be tested by internal audit or compliance to ensure that they are effectively implemented with the results of the independent testing completed and reported to the Division by March 31, 2014.

COMPANY BACKGROUND

The Company was incorporated in 1972 in Delaware as Metropolitan Property and Liability Insurance Company, a wholly-owned subsidiary of Metropolitan Life Insurance Company (“MetLife”). The Company changed its name to Metropolitan Property and Casualty Insurance Company in 1990 and re-domiciled to Rhode Island in 1995. In 2000, MetLife demutualized and became a publicly traded insurance company. The Company provides private passenger auto and homeowners insurance in many states including Massachusetts.

The Company’s statutory surplus as of December 31, 2011 is \$1.86 billion with statutory admitted assets of \$4.97 billion. The Company’s 2011 direct premium written is \$1.22 billion. The Company maintains an A.M. Best financial strength rating of A (Excellent) with a stable outlook.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.
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Objective: This Standard addresses 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 Board of Directors is comprised of employee directors of MetLife, including the Company President and other senior executives from other MetLife subsidiaries. The Company's Audit Committee is comprised of three directors, including the Company President and two senior executives from other MetLife subsidiaries. The Audit Committee is responsible for overseeing management's design and implementation of the Company's accounting procedures and financial reporting processes, and managing the Company's financial statement audits. The Company also maintains an Audit Council comprised of employee directors to support management in discharging its responsibility to maintain an adequate system of internal controls and financial reporting, and in that regard, compliance with all applicable laws and regulations. These committees report to the Company's Board of Directors.
- The MetLife Board of Directors Governance and Corporate Responsibility Committee has general oversight over legal affairs, corporate governance and regulatory compliance. The MetLife Board of Directors consists of ten independent directors, the Company's Chief Executive Officer, and two retired Company executives. The Company's Compliance and Ethics Department ("CED") is responsible for maintaining an automated compliance tracking ("ACTS") system, which is used to identify and update various laws, rules and regulations that are applicable to Massachusetts personal lines. ACTS is accessible by the business units and is to be integrated in policies and procedures to ensure that regulatory compliance is effectively evaluated and addressed through business processes and controls. The CED also conducts training and assists business units in designing compliance related controls. Finally, a governance risk and compliance system ("GRC") is used by CED to prepare an annual risk assessment of compliance risks. The GRC evaluates controls and identifies areas for monitoring and testing, which is typically coordinated with the internal audit function. A quarterly compliance update is reported to MetLife senior compliance management summarizing activities and events.
- The Company's internal audit function is integrated into MetLife's enterprise internal audit function. The Company's Audit Committee meets quarterly and receives reports from the internal audit function. The standard quarterly reporting includes discussions of financial, compliance, operational and information technology risks, and the results of related testing. The Company's Audit Committee also approves the annual risk assessment prepared by internal audit with input from senior management and the Company's CED.
- The Company has quality assurance programs in its underwriting and claims departments. The Company's underwriting department performs a quality assurance review of one new business, one renewal and one endorsement transaction per underwriter per month to ensure the accuracy of the transaction and to verify that all underwriting standards are met. The claims department conducts periodic reviews of claims for adherence to policies and procedures using a detailed questionnaire. Additionally, a home office claims review team periodically visits claims field

offices to conduct similar reviews. Results from quality assurance reviews are reported monthly to management and are used for coaching and performance evaluations.

- The Company conducts field audits of producer operations to ensure compliance with policies, procedures and documentation requirements.
- 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 automobile insurance in Massachusetts.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for corporate governance, internal audit, compliance risk assessment and quality assurance audit processes. RNA reviewed minutes of Board of Directors meetings, the internal audit plan, several internal audit reports, quarterly compliance risk assessment reports, underwriting and claim quality assurance results and recent CAR audits.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adopted policies and procedures to ensure that appropriate audits or reviews are conducted timely. Audit findings are monitored, and follow up audits are completed to ensure that findings are properly remediated.

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 domiciliary state’s financial examination of the Company.

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

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

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

- The Company’s Special Investigative Unit (“SIU”) has adopted antifraud claims and underwriting procedures, which require management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud, and to report potential fraud to the Massachusetts Insurance Fraud Bureau (“IFB”).

- The Company's claims function uses a Company-developed expert system, which scores all personal lines claims using four scoring engines. These engines identify inherent patterns in the claims data, match claimants and vehicles to key internal and external databases, apply business fraud rules, perform identity searches, and compare claims to Insurance Services Office ("ISO") Claim Search data including National Insurance Crime Bureau ("NICB") data. Scored claims are provided to the claims representatives through alerts or directly to SIU staff for handling when necessary.
- Company policy is to comply with CAR's SIU performance standards. All auto thefts are reported to the NICB.
- The CED conducts periodic on-line business conduct surveys of all MetLife employees to ascertain outside business activities, relationships, gifts, entertainment and financial dealings to ensure compliance with the Code of Conduct. Employees must annually attest that they have read the Code of Conduct and disclose any reportable matters.
- The Company conducts criminal and financial background checks prior to hiring prospective employees.
- The Company has implemented Office of Foreign Asset Control compliance initiatives including searches of the Specially Designated Nationals ("SDN") database for any policyholders, claimants, or vendors that might be included in the SDN database.

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

Transaction Testing Procedure: RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives in place that are reasonably designed to detect, prevent and fully investigate 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 is included in the scope of the domiciliary state's statutory financial examination of the Company.

Standard I-5. Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, MGAs, GAs, TPAs and management agreements must comply with applicable licensing requirements, statutes, rules and regulations.
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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 sells personal lines policies in Massachusetts through independent agents. The Company verifies that independent agents are properly licensed as Massachusetts producers prior to contracting with them. The Company's agency contract addresses agent authorities, proper licensure, maintenance of records, business procedures, binding authority, commission rates, premium submission, advertising rules, expirations ownership, suspension and termination provisions. Finally, the Company also requires independent agents to maintain errors and omissions coverage.
- The Company does not use third party administrators to process business transactions or to manage the Company's operations.

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 such documentation as part of new and renewal business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company's contracts with independent agents 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.
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Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is adequately monitoring the activities of independent agents 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 for various documents and records.
- The record retention requirements include guidelines for management, maintenance and disposal of records, and the length of time specific documents must be retained.

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

Transaction Testing Procedure: RNA 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.

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 is concerned with the Company's cooperation during the course of 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 acceptable.

Recommendations: None.

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

Objective: This Standard is concerned with 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-16:

- Company policy requires that consumer privacy and opt out notices be provided to applicants when a new personal lines policy is issued. The consumer privacy notice is also annually provided to customers with personal lines renewal notices. Finally, the Company also provides the consumer privacy notice and the internet privacy policy on its website.
- Company policy allows for the sharing of customer and personal information with affiliates and non-affiliates who provide services to the Company. The opt out notice requires the consumer to take action by returning the notice, if the consumer wishes to direct the Company to not share

personal information with the Company's affiliates and with non-affiliates with whom the Company has entered into joint marketing arrangements.

- 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 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.

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 and completion of underwriting 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.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient consumer privacy notice to customers that discloses 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 with regard 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 including those for the use of opt out notices.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have policies and procedures for properly tracking opt out requests and ensuring that for such requests, nonpublic personal financial information is not shared for marketing purposes.

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 is concerned with 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 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 is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal financial and health information is located. Access is frequently and strictly monitored.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard is concerned with the Company's annual reporting of statutorily-required homeowners underwriting and claims data and the 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 and claims systems compile and retain homeowners underwriting and claims data for inclusion in the annual homeowners data submission to the Division.
- The Company's policy administration and claims systems compile and retain underwriting and claims data for inclusion in the MCAS.

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 2011 homeowners underwriting and claims data statutorily-required to be submitted to the Division and also reviewed the 2011 MCAS data for unusual results and concerns.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's underwriting and claims processing and the 2011 homeowners underwriting and claims data, no unusual results and concerns were

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
METROPOLITAN PROPERTY AND CASUALTY INSURANCE COMPANY

noted, and the statutorily-required data reported to the Division appears to be reasonably complete and accurate. RNA's review of the Company's 2011 MCAS Massachusetts data indicated no unusual underwriting or claims data, although the number of private passenger automobile and homeowner non-renewals were overstated showing the number of non-renewals over several years.

Required Actions: The Company shall adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems.

Subsequent Company Actions: The Company is adopting new procedures as noted in the required actions and has re-filed its 2011 MCAS data with the NAIC.

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 considers a complaint to be any written grievance received from anyone.
- Complaints are managed nationally by the Company's Problem Resolution Team ("PRT") located in Dayton, Ohio, which maintains the Company's complaint register and coordinates with the various business units, which are primarily responsible for researching and responding to regulatory and Company complaints.
- Complaints are entered into an electronic complaint management system, which also serves as a work flow system to track complaints that are sent to appropriate business units for a response. A response is prepared by business unit staff and reviewed by a supervisor. Once the response is final, it is sent to the complainant or regulator with a copy to the PRT. Complaints that are received directly in the business units are also provided to the PRT for inclusion in the complaint management system and complaint register.
- The business units are to respond to non-Division complaints within five days whenever possible.
- The Company provides a telephone number and address in its written responses to regulatory complaints and consumer inquiries and on its web-site.
- The Company's complaint management system and complaint register contain the Company complaint number, regulatory complaint number, date received, date of response, origin of the complaint, line of business, complainant name and state, claim or underwriting file number, operational function code, nature of complaint, Company contact addressing the complaint, complaint disposition and any additional remarks.
- Complaint statistics are compiled from complaint register data by the PRT, and trends are analyzed with unusual spikes or activity monitored. A quarterly report is prepared by the PRT analyzing and tracking complaint trends and activity by business unit and jurisdiction. Finally, senior management reports any unusual trends or indicators noted to the Company's Audit Committee.

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

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint registers for 2011-2012 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for 2011-2012 to determine whether they properly contained all Division complaints. Finally, RNA reviewed claims complaint statistics compiled from complaint registers for reasonableness and consistency.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's complaint register includes all statutorily-required database elements and that the complaint register was complete. Finally, the Company's claims complaint statistics appear reasonable and consistent.

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 reviewed 30 regulatory and Company-received complaints from the 2011-2012 period, 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 consumers.

Recommendations: None.

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.
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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 reviewed 30 regulatory and Company-received complaints from the 2011-2012 period, 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.

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 reviewed 30 regulatory and Company-received complaints from the 2011-2012 period, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company appeared to address timely the tested regulatory and Company-received complaints with nearly all addressed within 14 days. 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 is concerned with 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:

- Advertising and sales materials such as television, print, radio, and mailing inserts are developed in the home office and are documented and tracked in the Company's workflow Sales Material Review System.
- Customizable advertising materials developed in the home office are available to agents.
- Proposed marketing materials are reviewed for branding guidelines and compliance requirements with an expiration date established for each marketing piece. Also, agents may not send prospecting letters to consumers without approval by the home office.
- 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 reviewing, approving and maintaining sales and advertising materials, and obtained supporting documentation. RNA selected 10 advertising and sales materials utilized during the examination period and reviewed them for accuracy and reasonableness, and for evidence of legal and regulatory approval prior to use. Further, RNA reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed 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: RNA noted that the 10 selected materials had evidence of legal and regulatory approval prior to use. All sales materials reviewed appeared accurate and reasonable, 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.

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

Objective: This Standard is concerned with whether the Company's producer training materials 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:

- The Company sells personal lines policies in Massachusetts through three distribution channels including its independent agents, its property & casualty specialists, who are captive employee agents in remote sales offices, and its direct employer sales group.
- Employee agents receive periodic training regarding the Company's products and compliance matters. Continuing education compliance for employee agents is monitored by the Company, with the Company obtaining evidence of the agents' completed courses.
- The Company's regional sales managers conduct supervisory visits of the property & casualty specialists located in remote sales offices. Also, field audits are completed throughout the year.
- The employees in the direct employer sales group are closely supervised and monitored with frequent call monitoring for compliance and training purposes.
- Independent agents provide application information electronically and other application evidence to the Company when applications are taken. Additionally, the underwriting function monitors the business produced by the agents and works with agents producing poor underwriting results to improve their profitability. The independent agents are contractually required to maintain Massachusetts continuing education and producer licensing requirements.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing agent training materials to understand the nature and breadth of the Company's producer training. As part of new and renewal business testing, RNA reviewed evidence for nine private passenger automobile and homeowners policies that employee agents met continuing education requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's agent training processes appear adequate, and agent training materials appear accurate and reasonable. The Company appears to be properly monitoring continuing education compliance for its employee agents.

Recommendations: None.

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

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

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing employee and independent agent communications to understand the nature and breadth of such communications. RNA reviewed employee and independent agent communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, procedures for agent communications appear appropriate and reasonable. RNA noted no evidence of unreasonable agent 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 is concerned with whether marketing to groups by 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-1.

Controls Reliance: See Standard III-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing group marketing communications to understand the nature and breadth of such communications. RNA reviewed group marketing communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
METROPOLITAN PROPERTY AND CASUALTY INSURANCE COMPANY

Observations: Based on review and testing, procedures for group marketing communications appear appropriate and reasonable. RNA noted no evidence of unreasonable group marketing communications as part of new and renewal business testing.

Recommendations: None.

IV. PRODUCER LICENSING

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

Standard IV-1. Regulated entity records of licensed and appointed (if applicable) producers 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 sells personal lines policies in Massachusetts through three distribution channels including independent agents, property & casualty specialists, who are captive employee agents in remote sales offices, and direct employer sales group staff.
- Any prospective agent must submit to a thorough investigation prior to appointment. The Company conducts criminal, financial and license background checks on for all independent and employee agent applicants.
- New agents are appointed using the Division's On-Line Producer Appointment ("OPRA") system.
- The Company verifies that independent agents are properly licensed as Massachusetts producers prior to contracting with them. The Company's agency contract addresses agent authorities, proper licensure, maintenance of records, business procedures, binding authority, commission rates, premium submission, advertising rules, expirations ownership, suspension and termination provisions. Finally, the Company also requires independent agents to maintain errors and omissions coverage.
- The Company uses a third party vendor to assist in tracking producer licensing changes and pending license expirations noted in the NAIC National Insurance Producer Registry ("NIPR") through NIPR Alert. That information is periodically compared to OPRA data, and corrections to the records are made as necessary.

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 and 25 homeowners policies issued or renewed during the examination period, to determine whether the independent agents involved in these sales were included on the Division's list of the Company's appointed agents.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA system.

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 licensing and appointment. See Standard III-2 for testing of producer continuing education requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

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

Controls Assessment: The following controls were noted in review of this Standard and Standards IV-4 and IV-5:

- The Company's policy is to give written notice to all agents whose appointments are terminated and notice to the Division through the OPRA system.
- The Company's policy is to give additional information to the Division about agents whose appointments are terminated "for cause" including the reason for the termination.
- The Company uses a third party vendor to assist in tracking producer licensing changes and pending license expirations noted in the NAIC NIPR through NIPR Alert. That information is periodically compared to OPRA data, and corrections to the records are made as necessary.

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 agent supervision, producer contracting and appointment termination processing. RNA selected 20 appointment terminations from the Company's appointment termination records and compared those to information in the Division's OPRA system appointment termination listing. Finally, RNA reviewed evidence that notice to the Division and the agents complied with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: For the appointment terminations tested, the Company properly notified the Division through the OPRA system in compliance with statutory requirements. Also, for each of these, the Company was able to provide evidence of timely notice to the agents in compliance

with 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 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.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, no evidence of unfair discrimination against policyholders was noted as a result of the Company's agent 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 agent 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 agent contracting and appointment termination processing. RNA selected 20 appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agent that was terminated "for cause" during the examination period.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
METROPOLITAN PROPERTY AND CASUALTY INSURANCE COMPANY

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

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 direct bills most premium. Thus, excessive debit account balances are not a significant issue.

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.
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Objective: This Standard is concerned with 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 billing and payment methods include payment in full at inception or direct bill in installments. Payments are accepted using a check, credit card, electronic funds transfer or payroll deduction. For new business, a down payment of 20% to 25% is generally required, depending on policy type and the customer's payment history.
- For billed installments, the initial bill is sent approximately 35 days prior to the due date. If not paid, a second notice is sent approximately five to eight days after the due date noting that the premium is past due with disclosure of the Company's cancellation policy. If not paid in the next 20 days, a cancellation is processed. For electronic funds transfers with insufficient funds, such notice will trigger a second and final transfer, and if the funds are still insufficient, the transfers are stopped, and the Company contacts the customer to set up a different billing method.
- If a customer was previously cancelled for non-payment and wants new coverage, the customer must either pay the annual premium in full or finance the premium with a premium finance company for at least one year.
- 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. RNA reviewed evidence of monitoring of billing and collections service standards.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard is concerned with whether the Company has procedures to ensure that policyholder cancellation requests are processed timely. Policy issuance testing is included in Standard VI-6. Return of premium testing is included in Standard V-7. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard V-7:

- Company policy is to cancel a policy upon notification from the agent or the policyholder, and to process premium refunds in a timely manner.
- All unearned premium is refunded to the policyholder on a short rate or a pro-rata basis.
- Automobile policyholders may cancel their policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service or evidence that they have moved out of Massachusetts.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested six private passenger automobile and 11 homeowner 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.

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.

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

- Customer service representatives and employee-agents answer general questions or correspondence about the policyholder's policy or premium billing and can make policy changes or billing changes.

- The Company has underwriting representatives who assist independent agents with policyholders' general questions about their policies or billing matters.
- The Company considers its independent agents as having the primary relationship with the policyholder, who must request endorsements and policy changes through the agent. If a policyholder requests such changes directly with the Company, the policyholder will be referred to the agent for servicing.
- The Company has developed performance/work flow standards and goals for customer service and policy changes, which are evaluated using a three-component quality monitor score. For the first scoring component, the Company monitors call center service levels for individual employees. All calls are recorded, and quality assurance audits are performed on five calls for five customer service representatives per month. For the second quality scoring component, metrics are evaluated such as average call time. The third quality scoring component is a measure of customer lead retention. The three components are combined into a quality monitor score. Call center metrics and results are reported to management weekly and monthly.

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 obtained documentation of underwriting, rating and policyholder service standards. RNA reviewed customer service scores for one quarter and customer 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 does not enter into assumption reinsurance agreements.

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

Objective: This Standard addresses procedures for the accurate and complete processing of policy transactions. Objectives pertaining to policy issuance, renewals and endorsements are included in Standard VI-6. Billing transactions are reviewed in Standard V-1, and insured-requested cancellations are tested in Standard V-2. Return of premium testing is included in Standard V-7. Company-initiated cancellations and non-renewals are tested in Standard VI-8. See Appendix A for applicable statutes, regulations and bulletins.

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:

- Company policy requires that un-cashed checks, including claims and premium refunds be reported and escheated when the owner cannot be located.
- The Company's treasury department periodically reviews its outstanding check list when completing monthly bank reconciliations. Payees with un-cashed checks that are outstanding six and nine months receive a letter to the last known address. Additionally, for un-cashed checks greater than \$100, six months prior to escheatment, the treasury department investigates the un-cashed checks to locate the recipient and sends a final letter to the last known address to notify the payee the amount to be escheated. When a check has been outstanding for three years, it is escheated.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.
- For returned mail, the Company researches the address using Company records or public information to ensure that the address is correct or to locate a better address.

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. Finally, RNA reviewed the 2011 escheatment filing with the Massachusetts State Treasurer.

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. Finally, the Company appears to report unclaimed items and escheat them as required by statute.

Recommendations: None.

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

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

Controls Assessment: See Standard V-2.

Controls Reliance: See Standard V-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested six private passenger automobile and 11 homeowner insured-requested cancellations from the examination period, to test for proper premium refund calculation and timely payment, where appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium refunds appear to be calculated properly and returned timely.

Recommendations: None.

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 claims personnel and independent agents have access to policyholders' claims history and paid loss information.
- The Company's policy is to directly provide a policyholder with his or her claims history and paid loss information upon request.

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

Transaction Testing Procedure: RNA discussed with Company personnel its policies and procedures for responding to policyholder inquiries regarding claims history and paid loss information. 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 that the Company was 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. 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.
- The Company requires written private passenger automobile and homeowners applications to be submitted by the agents, unless the applicant calls the group sales call center and requests coverage over the phone. The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- 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.
- 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 and ensures that at-fault drivers are appropriately surcharged for such accidents. Surcharged drivers are notified of the right to appeal the surcharge. The Company does not report the at-fault indicator to consumer reporting agencies.
- Private passenger automobile rates are based on Automobile Insurers Bureau of Massachusetts ("AIB") base rates with deviations using actuarial guidelines and principles.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules.
- Homeowners rates are based on Massachusetts Independent Statistical Service ("ISS") data and the Company's competitive analysis of market rates.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and automobile coverage, new construction, security features, safety features and higher deductibles. The Company does not use credit or insurance scores in homeowners underwriting and rating in Massachusetts.
- Personal lines rates are filed with the Division and approved prior to use. All approved rates are loaded in the Company's underwriting and policy administration systems and are tested prior to use.
- The Company's underwriting department performs a quality assurance review of one new business, one renewal and one endorsement transaction per underwriter per month to ensure the accuracy of the transaction and to verify that all underwriting standards are met.

- The Company also monitors compliance with underwriting and new business processing time standards to ensure that work flow meets the Company's goals. Results are reported daily and weekly to supervisors.

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 and 25 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. From these test selections, RNA selected 13 private passenger automobile, 12 homeowners policies and verified that each policy's premium, discounts and surcharges complied with statutory and regulatory requirements and that premium charges were accurate. To test compliance with the April 2011 Regulatory Settlement Agreement between the Company and the Division related to valuation of motorcycles and premium rating, RNA selected 25 motorcycle policies to test rates charged and motorcycle valuations used for comprehensive and collision coverages. Further, to test compliance with the October 2010 Regulatory Settlement Agreement between the Company and the Division related to reporting of at-fault accident determinations with consumer reporting agencies, RNA tested 113 vacated at-fault accident determinations by the Board of Appeal. RNA also tested the 113 vacated surcharges for accurate and timely reversal of the vacated at-fault accident determinations. Finally, during private passenger automobile claims testing, RNA tested to ensure that at-fault accident surcharges were properly applied in accordance with regulatory requirements.

Transaction Testing Results:

Findings: RNA testing indicated that vacated surcharges by the Board of Appeal for 17 consumers were not properly and timely reversed in accordance with M.G.L. c. 175E, § 7A and Division Bulletin 2010-11.

Observations: Based upon testing, except as noted above, the Company appears to calculate policy premiums, discounts, and at-fault accident surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. In addition, testing of vacated surcharges indicated that 96 of 113 vacated surcharges by the Board of Appeal were properly and timely reversed, as applicable. Finally, the Company no longer shares at-fault accident determinations with consumer reporting agencies, so the Company is not required to provide at-fault accident determination updates to them when the Board of Appeal vacates at-fault accident surcharges.

Required Actions: The Company shall adopt new procedures to ensure that premium refunds for vacated surcharges by the Board of Appeal are timely and properly processed. Additionally, the Company shall provide training or guidance to staff about these new procedures. The Company shall review all vacated surcharges since 2003 to ensure that all required premium reversals have been properly applied. Any premiums due to consumers shall be paid to them plus 6% interest. The results of this review shall be reported to the Division. The Company shall complete an independent assessment of the effectiveness of the new vacated surcharge reversal procedures by March 31, 2014 and report the results of the assessment to the Division. Finally, the Company shall adopt a new procedure to complete an annual review and comparison of its vacated surcharge data with data directly obtained from the Board of Appeal. The review shall include a transactional validation process to ensure accurate and timely removal of vacated surcharges.

Subsequent Company Actions: The Company is providing premium refunds to the above identified consumers and is reviewing the vacated surcharges since 2003 to ensure that all vacated surcharges have been properly applied. Interest at 6% is also being paid. Further, the Company is adopting new procedures to ensure that premium refunds are timely processed for vacated surcharges and is providing guidance to staff about the new procedures. Finally, the Company states it will complete the required assessments and report the results to the Division as noted in the required actions.

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's controls are designed to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- The Company provides private passenger automobile information guides to consumers.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company provides required coverage disclosures to insureds 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 commissions to independent agents in accordance with written contracts. The Company's property & casualty specialists are compensated through commissions, and the direct employer sales group compensation structure is salary plus bonus.
- The Company's independent agent 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 producer licensing, agent appointment and agent compensation. In connection with the review of producer contracts, RNA inspected new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or improper inducements. RNA selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period for indications of rebating, commission cutting or improper 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.

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 7th Edition Massachusetts Private Passenger Automobile Form, which has been approved by the Division.
- Company policy requires that homeowners policy forms and endorsements be filed and approved by the Division prior to use.
- Approved 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 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.

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.
- The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- Pre-insurance inspections are required for new coverage of used private passenger automobiles unless a qualified exemption is met or a waiver is obtained.

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 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. RNA also tested for compliance with vehicle inspection requirements.

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.
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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.

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 automobile and homeowners coverage may be declined by the customer service representative, the independent agent on the Company's behalf or by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- The Company provides a written or oral declination notice to all private passenger automobile and homeowner applicants, who do not meet the Company's minimum standards for coverage. In August 2011, the Company adopted a practice to provide written declination notices to Massachusetts private passenger automobile applicants who were declined coverage.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA tested 25 private passenger automobile and 25 homeowners declinations processed during the examination period to ensure that declinations were not unfairly discriminatory and to ensure that proper declination notices were given to applicants.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, private passenger automobile and homeowners declination decisions were generally made in accordance with statutory requirements and the Company's underwriting guidelines. One private passenger automobile applicant was improperly denied coverage in violation of the Company's underwriting guidelines. All remaining declined applicants received either written or oral declination notices. Based upon testing and review of the information available, the Company's declinations generally were not unfairly discriminatory.

Recommendations: The Company should provide guidance to the customer service and underwriting staff about review of Massachusetts private passenger automobile applications in accordance with underwriting guidelines to ensure compliance with such guidelines. Also, the Company should adopt consistent policies and procedures for the delivery and format of homeowners declination notices. We recommend the use of written declination notices.

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 notices are tested in Standard VI-7. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company-initiated cancellations of private passenger automobile policies for underwriting reasons are a result of driver license suspension, vehicle registration violations or material misrepresentation, with most occurring within the first 60 days of coverage. Company-initiated cancellations of homeowners policies for underwriting reasons are generally a result of changes in the risk, failure to address inspection deficiencies or material misrepresentation with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder at least 23 days prior to the cancellation effective date.
- Company cancellations for non-payment of premium for private passenger automobile policies are provided at least 20 days prior to the cancellation effective date and for homeowners policies, are provided at least 10 days prior to the cancellation effective date.
- Written non-renewal notices for unacceptable renewals of private passenger automobile and homeowners risks are provided to policyholders at least 45 days prior to the non-renewal effective date. The notices state the specific reasons for the non-renewals.

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 tested 34 private passenger automobile and 19 homeowners company-initiated underwriting and non-payment cancellations for testing. In addition, RNA selected 36 private passenger automobile, 29 homeowners and five umbrella non-renewal transactions for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: None.

Observations: The Company provided timely and adequate notice to the policyholders for company-initiated cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

Recommendations: None.

Standard VI-9. Rescissions are not made for non-material misrepresentation.
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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 Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company states that, although rare, rescissions may be given only for significant material misrepresentations or fraud and only with approval of the 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 inquired about procedures for issuing 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. 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 Division limited the scope of this examination to personal lines business only.

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 Division limited the scope of this examination to personal lines business only.

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 Division limited the scope of this examination to personal lines business only.

Standard VI-14. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

Standard VI-15. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination as the Division limited the scope of this examination to personal lines business only.

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 Division limited the scope of this examination to personal lines business only.

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 and rating 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 determined at or near the inception of coverage.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- The Company's underwriting department performs a quality assurance review of one new business, one renewal and one endorsement transaction per underwriter per month to ensure the accuracy of the transaction and to verify that all underwriting standards are met.

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 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.

Objective: This Standard addresses whether audits are conducted accurately and timely. See Standard I-1 for external audits, internal audits, field agency audits, CAR 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.
- The Company's customer service representatives and independent agents are responsible for obtaining the VIN and vehicle symbol when the applications are completed.
- The Company's underwriting system compares the VIN and vehicle symbol to electronic databases 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 or renewed 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.

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 Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Certain risks are referred to the underwriters to determine whether they should be accepted or rejected.
- The Company's underwriting department performs a quality assurance review of one new business, one renewal and one endorsement transaction per underwriter per month to ensure the accuracy of the transaction and to verify that all underwriting standards are met.

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 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.

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.
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Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting for mass marketing plans offered to employer 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 consumer groups.
- The Company's mass marketing plans offered to consumer groups 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 consumer 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 the underwriting process. RNA selected 25 private passenger automobile policies issued or renewed during the examination period, to ensure that underwriting practices for mass marketing plans offered to consumer groups were not unfairly discriminatory. From these test selections, 14 private passenger automobile policies were mass marketed to consumer groups and included affinity premium discounts. During this testing, RNA sought evidence of any unfair discrimination in underwriting these policies, examined evidence of the Division's approval of the affinity premium discounts and tested the application of affinity premium discounts for three of these policies.

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 consumer groups are unfairly discriminatory. All affinity premium discounts were approved by the Division, and the affinity premium discounts were properly applied.

Recommendations: None.

Standard VI-23. All group personal lines property and casualty policies and programs meet minimum requirements.
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Objective: This Standard addresses whether mass marketing policies meet statutory and regulatory requirements. See Standard VI-22 for this testing. See Appendix A for applicable statutes, regulations and bulletins.

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 expiration for cancellations and non-renewals. 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's policies and procedures require that Company personnel confirm that certain coding elements reported by the agents are correct and current.
- The Company has a process to correct data coding errors and to make subsequent 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 ISS.
- 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 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.

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.
- The Company's customer service representatives and independent agents are responsible for completing and retaining applications for new business and obtaining information needed to properly underwrite and rate the policies. Properly completed non-group sales applications are to include applicant and producer signatures. Group sales applications by phone are not required to be signed by the applicant.

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 and 25 homeowners policies issued during the examination period, to test whether the application information was properly submitted and whether policy files adequately support the Company's decisions. RNA also sought evidence of complaints related to unusual underwriting decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and policy files adequately supported the Company's decisions. No evidence of complaints related to unusual underwriting decisions was noted.

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:

- Massachusetts private passenger automobile claims are processed in Lowell, MA and Massachusetts homeowners claims are handled in the Bloomfield, CT claims office. Both claims offices are organized along functional and claim coverage lines. The Company also has a nationwide SIU in the home office and an SIU analyst team in the Lowell office that supports nationwide claims operations. Each functional unit is supervised by a claims manager and several claims supervisors, who oversee teams of claims representative and field appraisers. Individual claim settlement authority limits are assigned commensurate with claims representatives' experience.
- Written policies and procedures govern claims handling processes. Claim first notices of loss are generally reported through the Company's 800 phone number. Claims representatives answer the calls with approximately 70% of claims handled by the representative answering the call. More complex claims are transferred to appropriate claim representatives. 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 is obtained and recorded in the electronic claims processing system, which includes a claim diary.
- Claims are investigated to determine coverage, liability and claim settlement amounts. Bodily injury claims are evaluated using a purchased expert system for assessing injuries, treatment, impairments and general damages. The use of this database assists in ensuring consistency and fairness of claims settlement and in adequate reserve setting. The Company uses the expert system as a tool to assist the claims representatives in adjusting bodily injury claims.
- Company policy is to comply with claim settlement performance standards established by CAR and those set forth in statute. CAR audits the Company for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and paying a claim.
- The Company's claims function uses a Company-developed expert fraud alert system, which scores all personal lines claims using four scoring engines. These engines identify inherent patterns in the claims data, match claimants and vehicles to key internal and external databases, apply business fraud rules, perform identity searches, and compare claims to ISO Claim Search data including NICB data. Scored claims are provided to the claims representatives through alerts or directly to SIU staff for handling when necessary. The SIU is responsible for coordinating with the IFB, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution.
- Company policy is to comply with CAR's SIU performance standards. All auto thefts are reported to the NICB.

- The Company has implemented Office of Foreign Asset Control compliance initiatives including searches of the SDN database for any policyholders, claimants, or vendors that might be included in the SDN database.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise. Department of Revenue checks are to be performed as required by statute and are to be documented in the claim files. Also, underwriting risk referrals are made to the underwriting department as necessary.
- Third party property damage claimants are generally not required to sign a liability release unless there is a settlement dispute or general damages awarded. Releases are routinely required from third party bodily injury claimants.
- Criteria for supervisor and manager periodic reviews of the claim representatives' work have been established, and such reviews are documented in the claim system. In addition, large loss reports for such claims are periodically prepared.
- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database as required in Massachusetts.
- The claim system produces data for the monthly claims balanced scorecard, which summarizes claim service and quality metrics using specific core competencies, along with various staffing statistics.
- The claims department conducts quality assurance reviews of claims for adherence to policies and procedures using a detailed questionnaire. Additionally, a home office claims review team periodically visits claims field offices to conduct similar reviews. Results from quality assurance reviews are reported monthly to management and are used for coaching and performance evaluations.
- The Company conducts post-claim payment surveys to first party claimants to obtain a net promoter score. Any negative comments from respondents are addressed, and the overall survey results are reported quarterly.

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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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 processed 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.

Standard VII-2. Timely investigations are conducted.

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

Controls Assessment: 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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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.

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

Recommendations: None.

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

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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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. Based upon testing, it appears that the Company's processes for timely resolving claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard VII-4. The regulated entity responds to claim correspondence in a timely manner.
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Objective: The Standard addresses the timeliness of the Company's response to 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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA tested each selected claim noting whether the Company timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

Controls Assessment: 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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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 that for each of the tested claims, the Company's claim files adequately documented its claim handling. Based upon testing, it appears that the Company's claim handling processes for documenting claim files are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes (including 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. 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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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 14 claims-related complaints to determine whether the related claims were properly handled.

Transaction Testing Results:

Findings: Testing indicated that 12 tested homeowners claims over \$1,000 were not properly and timely reported to local building and health authorities to disclose a dangerous condition in accordance with M.G.L. c. 139, § 3B.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures except as noted above. Based upon testing, it appears that the Company's processes for handling claims are generally functioning in accordance with its policies, procedures and statutory requirements. Finally, upon evaluation of 14 claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall adopt a specific policy and new control procedures to address the requirements of M.G.L. c. 139, § 3B and provide training or guidance to claims adjusters on proper and timely implementation of these policy and procedures. The new procedures shall be tested by internal audit or compliance to ensure that they are effectively implemented with the results of the independent

testing completed and reported to the Division by March 31, 2014.

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

Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. 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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. RNA reviewed the file for each selected claim, 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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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.

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.

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 denied or closed-without-payment claims including four private passenger automobile claims and four homeowners claims 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.

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

Controls Assessment: 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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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.

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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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: RNA noted each of the tested claims was reported and investigated according to the Company's policies and procedures, and claim file documentation was adequate. Based upon testing, it appears that the Company's processes for utilizing reservation of rights and excess of loss letters for claims 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 private passenger automobile claims including 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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 that deductible reimbursement to insureds upon subrogation recoveries for all applicable tested claims were timely and accurate according to the Company's policies and procedures. Based upon 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.

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 insurance industry.
- The Company reports homeowners loss data to ISS in the required format.
- The Company has processes to correct loss data coding errors and to make subsequent 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 12 paid claims, four denied or closed-without-payment claims and nine open claims for testing. Also, RNA selected homeowners claims including 12 paid claims, four denied or closed-without-payment claims and nine 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.

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 2011 *NAIC Market Regulation Handbook*, 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 Company Operations/Management, Underwriting and Rating, and Claims.

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.

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