

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

***REPORT OF EXAMINATION OF THE***  
**MASSACHUSETTS PROPERTY INSURANCE**  
**UNDERWRITING ASSOCIATION**

**Boston, Massachusetts**

**As of September 30, 2014**

**EMPLOYER ID NUMBER 04-2503455**

# MASSACHUSETTS PROPERTY INSURANCE UNDERWRITING ASSOCIATION

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

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COMMISSIONER OF INSURANCE

January 26, 2016

The Honorable Daniel R. Judson  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Section 5 (a) of Massachusetts General Laws, Chapter 175C, an examination has been made of the financial condition and market conduct affairs of

**MASSACHUSETTS PROPERTY INSURANCE UNDERWRITING ASSOCIATION**

at its home office located at 2 Center Plaza, Boston, Massachusetts, 02108-1904. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The Massachusetts Division of Insurance (“Division”) has performed its examination of the Massachusetts Property Insurance Underwriting Association (the “Association”). The last examination covered the period October 1, 2000 to September 30, 2009. This examination covers the period of October 1, 2009 to September 30, 2014.

The financial examination aspects of the examination were conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Association, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of the adjustment is documented separately following the Association’s financial statements.

The market conduct aspects of the examination were conducted using the guidance and standards of the 2014 NAIC *Market Regulation Handbook* (“Market Regulation Handbook”), the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. The operational areas that were reviewed under this examination include complaint handling, 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 Market Regulation Handbook, the examination included an assessment of the Association’s related internal controls. While the Market Regulation Handbook approach is designed to detect incidents of deficiency through transaction testing, the market conduct aspects of the examination also provide an understanding of the key controls that the Association’s management uses to operate their business and to meet key business objectives, including compliance with applicable laws and regulations related to market conduct activities. The Association’s internal controls were considered when determining sample sizes for transaction testing.

This examination report includes significant findings of fact in compliance with Massachusetts General Laws, regulations or bulletins and general information about the insurer and its financial condition. With regard to market conduct, 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. All unacceptable or

## Massachusetts Property Insurance Underwriting Association

non-compliant practices may not have been discovered or noted in this report. Further, failure to identify unacceptable or non-compliant business practices does not constitute acceptance of such practices. Finally, other items may have been identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.) are not included within the examination report but may have been or were communicated separately to the Association.

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no financial examination findings. Market conduct findings are reflected in the section entitled Treatment of Policyholders-Market Conduct.

### **ASSOCIATION HISTORY**

The Association was formed in 1968 under Massachusetts General Laws Chapter 175C as a residual market joint underwriting association of the member insurers to provide property and liability insurance for those who cannot purchase such insurance in the voluntary market. All Massachusetts-licensed property insurers are required to be members of the Association and to participate proportionately in the results of operations based on written premium. The Association's Constitution establishes an association to provide basic property insurance in accordance with the law and defines the rights and responsibilities of member insurers. The Association's Plan of Operation describes processes to make basic property insurance more readily available to all eligible applicants, and to equitably apportion and distribute the written premiums, expenses, profits, if any, and losses of the association among insurers licensed to write basic property insurance in Massachusetts.

The Association offers homeowners, dwelling fire, dwelling liability and commercial fire insurance similar to licensed property casualty insurers and, in most instances, is operationally managed similar to such insurers operating in Massachusetts. The Association is not allowed to consider environmental conditions, defined as those beyond the control of the property owner. Such conditions include coastal exposures, urban exposures, neighborhood crime, and level of vacant properties in a particular neighborhood. The Association's underwriting guidelines follow the Fair Access to Insurance Requirements Plan guidelines of the Federal Department of Housing and Urban Development and are approved by the Division.

### **MANAGEMENT AND CONTROL**

#### **Board of Directors**

The Association's Constitution directs that the Association be governed by a Board of Directors ("Board") consisting of eighteen members. Ten directors are elected annually by a cumulative vote of the members, whose votes in such election are weighted in accordance with each member's proportionate share of aggregate written premiums by all members during the most

## Massachusetts Property Insurance Underwriting Association

recent calendar year. No more than one member of a group of insurers under the same management or ownership may serve as director on the Board at the same time. The Commissioner annually appoints two directors representing associations of insurance agents and brokers, and six directors serving as public representatives not affiliated with the insurance industry.

The Association's Constitution states that regular and special meetings of the Board shall be held in Massachusetts or, at the request of the Chairman, by teleconference. The Board shall have regular meetings at least two times a year, or as often as may be required to perform its duties, and shall meet upon the request of the Chairman or any two directors, or of any ten members. Directors may waive notice of a meeting in a writing, which shall be filed with the minutes of the Board. The Board has created and authorized various committees to assist in overseeing operations, each with defined functions, responsibilities, and authorities. These committees meet at least annually and more frequently as needed.

As of September 30, 2014, the Association's Board of Directors consisted of the following individuals:

<u>Members</u>	<u>Directors</u>
Quincy Mutual Group	Kevin M. Meskell, Chairman
Norfolk and Dedham Group	F. Timothy Hegarty Jr., Vice Chairman
The Andover Companies	Donald F. Vose, CPCU
Federal Insurance Company	Joanne K. Martyn
Hanover Insurance Company*	Edward Ruhl
The Travelers Group	Lori Dube
Liberty Mutual Group	Paolo Abelli
MAPFRE Commerce Group	Matt Wilcox, CPCU
Arbella Group	James S. Hyatt
Safety Group	Edward N. Patrick, Jr.
Represents Insurance Agents and Brokers	David J. Lane, CPCU, ARM
Represents Insurance Agents and Brokers	Allen I. Rome, CPCU
Representative of the Public	Robert Doherty
Representative of the Public	Joseph W. Meador, Ph.D
Representative of the Public	Karen Goode
Representative of the Public	Patrick J. Sullivan
Representative of the Public	Thomas Callahan
Representative of the Public	Michael J. Sabbagh

\*On November 20, 2014, member Vermont Mutual Insurance Company and its director Daniel C. Bridge replaced member Hanover Insurance Company and its director, Edward Ruhl.

### Officers

The Association's Constitution states the Board shall elect from its membership a Chairman and a Vice Chairman. Additional officers, including a Secretary, who need not be a director, may be appointed by the Board. Further, the Board shall appoint and arrange for the compensation of a President, Treasurer, and such other officers and employees as the Board may deem necessary,

## Massachusetts Property Insurance Underwriting Association

which persons shall serve at the pleasure of the Board and perform the duties provided in the Association's Plan of Operation and such other duties as the Board may designate.

Officers and management of the Association as of September 30, 2014 were as follows:

<u>Name of Officer</u>	<u>Title</u>
John K. Golembeski	President
Robert C. Tommasino	Senior Vice President and General Counsel
Frances A. DiRusso	Vice President and Chief Financial Officer
Linus T. Hart	Vice President and Information Systems Manager
James H. Pappas	Vice President and Underwriting Manager
Michael W. Reilly, Esq.	Vice President and Claims Manager

### Related-Party Transactions

The Association receives inspection services from four companies. One inspection services firm is operated by the son of the President. The cost of inspection services provided by the related party in 2014 was \$1,365,000 and, as of September 30, 2014, the Association owed the related party \$120,000. The Association also receives inspection services from a second inspection services firm operated by relatives of a Board member. The cost of inspection services provided by this related party in 2014 was \$1,709,000 and, as of September 30, 2014, the Association owed this related party \$142,000. Annually, the Association discloses these relationships to the Association's Executive Committee and in its audited financial statements. Inspection transactions with these related parties appear to be entered into on terms identical to those utilized with unrelated third party inspection services firms.

### Management and Services Agreement

The Association has entered into an agreement with Rhode Island Joint Reinsurance Association ("RIJRA") whereby the Association furnishes RIJRA management, personnel, services, and facilities, as necessary, for the proper conduct of its affairs. Reimbursement to the Association by RIJRA, representing RIJRA's portion of these expenses, approximated \$1,340,000 for 2014. The administrative expense category in the Association's financial statements has been credited for such reimbursement.

### Tommasino & Tommasino

The Association utilizes Tommasino & Tommasino, a law firm, for most of its claims litigation defense duties and other legal services. The law firm's six lawyers and four administrative assistants are employees of the Association. A partner of the firm is Robert C. Tommasino, who, as of November 14, 2013, became the Association's Senior Vice President and General Counsel. The Association's relationship with the law firm has been in place since the early 1980's. The Association has made no allocation of Association-incurred costs to the law firm. Please refer to Company Operations/Management on page 11 of the report for further discussion on Tommasino & Tommasino.

## **TERRITORY AND PLAN OF OPERATION**

The Association is organized under the laws of the Commonwealth of Massachusetts and it is authorized under Chapter 175C of the Massachusetts General Laws to provide property and liability insurance in Massachusetts. The Association's Plan of Operation describes processes to make basic property insurance more readily available to all eligible applicants, and to equitably apportion and distribute the written premiums, expenses, profits if any, and losses of the association among insurers licensed to write basic property insurance in Massachusetts.

## **REINSURANCE**

The Board oversees the Association's reinsurance placements. The Association utilizes a reinsurance brokerage firm as its consultant and broker for professional reinsurance advisory services. The Board adopted a long-term strategic reinsurance policy. The policy goal is to purchase reinsurance protection for the exposure and risk of a natural disaster borne by the Association's members based upon average of probable maximum losses using two industry-developed catastrophe models adjusted for loss adjustment expenses, demand surge, and growth projections through September 30 of each year. The long-term catastrophe reinsurance program may attach as low as the one in ten year event level, up to a one in 150 year event. The Board reviews the long-term strategic reinsurance policy annually.

In 2010, the Association first incorporated a catastrophe bond in its program, which ran for a three year term, ending on June 30, 2013. The Association's reinsurance placement effective July 1, 2014 did not incorporate a catastrophe bond, and the total reinsurance placement provides \$1.2 billion excess coverage in five layers attaching at \$200 million. Although no reinstatement premium protection policy was separately purchased with the 2014 placement, the policies automatically provide for reinstatement. The July 1, 2015 placement provides for \$1.425 billion excess coverage in six layers attaching at \$100 million, which includes a \$300 million catastrophe bond that runs for three years, and \$1.125 billion coverage purchased through the traditional reinsurance market that runs for one year. The entire 2015 program provides for "aggregate coverage" and no reinstatement.



**FINANCIAL STATEMENTS**

The following financial statements are based on the audited statutory financial statements prepared by management and filed by the Association with the Division and present the financial condition of the Association for the period ending September 30, 2014. The financial statements are the responsibility of Association management.

Statement of Assets, Liabilities, and Members' Equity as of September 30, 2014

Statement of Income for the Year Ended September 30, 2014

Reconciliation of Members' Equity for Each Year in the Five-Year Period Ended September 30, 2014

Massachusetts Property Insurance Underwriting Association

Statement of Assets, Liabilities, and Members' Equity

As of September 30, 2014

(In Thousands)

<b>ASSETS</b>	<b>Per Annual Statement</b>
Bonds	\$ 563,745
Cash, cash equivalents and short-term investments	51,919
Receivable for securities	6
Subtotals, cash and invested assets	<u>615,670</u>
Investment income due and accrued	3,874
Premiums receivable	30,454
Management fees receivable	409
Electronic data processing equipment and software	112
Other accounts receivable	13
Total Assets	<u><u>\$ 650,532</u></u>
 <b>LIABILITIES and MEMBERS' EQUITY</b>  	
Losses and loss adjustment expense reserves	\$ 76,998
Unearned premiums	146,712
Premium tax reimbursements payable	6,358
Advance premiums	7,370
Clams payable	15,616
Accrued pension and postretirement benefit obligation	11,046
Other liabilities	6,011
Total Liabilities	<u>270,111</u>
Members' Equity	<u>380,421</u>
Total Liabilities and Members' Equity	<u><u>\$ 650,532</u></u>

Massachusetts Property Insurance Underwriting Association

Statement of Income  
For the Year Ended September 30, 2014  
(In Thousands)

	<u>Per Annual Statement</u>
Premiums Earned	<u>\$ 206,801</u>
Deductions:	
Losses incurred	104,908
Loss adjustment expenses incurred	13,825
Commissions	33,318
Premium tax reimbursement	6,358
Administrative	<u>18,989</u>
Total underwriting deductions	<u>177,398</u>
Net underwriting gain	<u>29,403</u>
Net investment income earned	17,098
Net realized capital gains	<u>138</u>
Net investment gain/(loss)	<u>17,236</u>
Other income	<u>625</u>
Net income	<u>\$ 47,264</u>

Massachusetts Property Insurance Underwriting Association

Reconciliation of Members' Equity  
 For Each Year in the Five-Year Period Ended September 30, 2014  
 (In Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Members' Equity, September 30, prior year	\$ 335,548	\$ 311,925	\$ 264,061	\$ 247,163	\$ 204,950
Net income	47,264	20,895	50,808	17,237	43,431
Change in net unrealized capital gains			-	-	447
Change in minimum pension liability	-	9,006	(2,991)	(308)	(1,630)
Change in unassigned funds - pension	(2,106)	(5,699)	-	-	-
Change in unassigned funds - postretirement	(447)	(395)	-	-	-
Change in non-admitted assets	162	(184)	47	(31)	(35)
Change in surplus as regards policyholders for the year	<u>44,873</u>	<u>23,623</u>	<u>47,864</u>	<u>16,898</u>	<u>42,213</u>
Members' Equity, September 30, current year	<u>380,421</u>	<u>335,548</u>	<u>311,925</u>	<u>264,061</u>	<u>247,163</u>

## **TREATMENT OF POLICYHOLDERS - MARKET CONDUCT**

### **Company Operations/Management**

#### **Tommasino & Tommasino Non-Association Work**

*Findings:* None.

*Observations:* As noted above, the Association utilizes Tommasino & Tommasino, a law firm organized as a partnership, for most of its claims litigation defense duties and other legal services. The law firm's six lawyers and four administrative assistants are employees of the Association. A partner of the firm is Robert C. Tommasino, who, as of November 14, 2013, became the Association's Senior Vice President and General Counsel. The Association's relationship with the law firm has been in place since the early 1980's.

In accordance with written Association policies, the lawyers are allowed to supplement the income of the equity partners and their own income by performing professional services for non-Association clients. The supplemental income work appears to be performed on Association property, utilizing Association staff and material. The Association has made no allocation of Association-incurred costs to the law firm. While the Association states that a policy is in place for reporting conflicts of interest to the Executive Committee, no perceived conflicts of interest have been identified or reported to the Executive Committee in recent years.

The Association does not obtain hours worked detail from the lawyers, other than for the few tested weeks completed by the Audit & Budget Manager. Thus, the Association does not know how many hours are worked by the lawyers for other than the tested weeks.

*Recommendation:*

The Division recommends that the Association's Senior Vice President and General Counsel end his equity ownership in Tommasino & Tommasino, as planned, as of December 31, 2016 and that the Association cease the practice of allowing the Association's employees to complete non-Association work in the best interests of policyholders, claimants, and public policy.

### **Complaint Handling**

The Association defines a complaint as any written expression of dissatisfaction or a grievance. The Association maintains complaint logs in the underwriting and claim departments, and these logs include complaints received from the Division, the Massachusetts Attorney General's Office, policyholders and third party claimants. Oral expressions of dissatisfaction are handled through phone calls in the operational areas. Responses to complaints are to be timely sent with a review by supervisors or managers prior to being sent.

## Massachusetts Property Insurance Underwriting Association

Rudmose & Noller Advisors, LLC (“RNA”) interviewed management and staff responsible for complaint handling, and examined evidence of the Association’s related processes and controls. RNA reviewed the Association’s complaint registers for 2012 to 2015 to evaluate the Association’s compliance with statutory complaint requirements. RNA also reviewed the Association’s complaint registers for 2014-2015 to determine whether the registers properly contained all Division complaints. RNA tested eight Division complaints to determine if the complaints were timely and properly handled in accordance with statutory requirements. Finally, RNA reviewed the Association’s website and communications to consumers, to determine whether the Association provides contact information for consumer inquiries.

*Findings:* None.

*Observations:* RNA noted that the Association’s complaint register included all statutorily-required database elements. Further, the Association’s complaint register included all Division complaints. Finally, based on testing, RNA noted that the Association has sufficient procedures in place to address complaints, addresses complaints fully and timely, and communicates complaint procedures to consumers.

*Recommendations:* None.

### **Policyholder Service**

#### *Billing and Payments*

The Association's billing system supports six-pay installment and full pay billing. The six-pay installment includes the down payment of 25% and five additional payments made within the first eight months of the policy term. Policyholders who have received two notices of cancellation for non-payment are no longer eligible for installment billing and must pay premiums in full. If needed, policyholders may use third-party premium finance companies, with the proper documents securitizing the full payment made by the premium finance company with the unearned premium in the policy. Installment bills are sent to the consumer approximately 20 days prior to the due date. If not paid, a notice of cancellation for non-payment of premium is mailed six days after the due date, noting that coverage will terminate in 13 days if there is no mortgage on the property, or in 23 days if there is a mortgage on the property. Once the policy cancels, there is no allowance for policy reinstatement. Insufficient funds checks are re-deposited one additional time for clearing; if the check does not clear, a notice of cancellation is issued.

RNA interviewed Association personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing.

*Findings:* None.

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

## Massachusetts Property Insurance Underwriting Association

Recommendations: None.

### Premium Return at Cancellation

When coverage is cancelled by the Association or when the policyholder requests cancellation, returns of unearned premium are made to the policyholder pro-rata based on the effective date of cancellation.

RNA interviewed Association personnel with responsibility for policyholder service and tested five homeowner cancellations by the Association to ensure that any unearned premium was properly calculated and timely returned.

Findings: None.

Observations: Based upon testing, the Association properly calculated and timely returned unearned premium.

Recommendations: None.

## **Underwriting and Rating**

### Policy Issuance, Premium Rating and Coverage Declinations

The Association offers standard homeowners policies including HO-2, HO-3, HO-4 (renter), HO-5, HO-6 (condo), and dwelling fire policies to consumers who cannot obtain coverage in the voluntary market. Policy forms and premium rates are filed with the Division for prior approval. The Association accepts policy applications from producers and individuals directly, and the application requires the producer or applicant to state that he or she attempted to obtain coverage in the voluntary market and could not obtain such coverage. Policy applications and other necessary forms are available on the Association's website. Most completed applications are received electronically from producers through the Association's producer front-end application on the Association's website. Producers generally provide the applicant's loss history with the application. No risks are bound until applications are submitted to the Association for review and approved by the Underwriting Department.

Applications received are assigned to customer service representatives and underwriters for underwriting review. Underwriting authority limits are assigned to the underwriting department staff with risks under \$500,000 assigned to trained customer service representatives, risks over \$500,000 assigned to underwriters, and risks over \$800,000 assigned to the Underwriting Manager. The extent of the underwriting review is risk assessed based on the location and nature of the risk. Typically, the staff will review the application submitted, applicant and risk eligibility, insurance-to-value using CoreLogic software, and distance to coast using RiskMeter for coastal exposures. Risks within a half mile of the coast require higher wind and hurricane deductibles. Underwriting decisions are documented by exception with adverse decisions

## Massachusetts Property Insurance Underwriting Association

documented in the Association's electronic underwriting files. The Association's goal is to complete the underwriting review within three days. Those applicants declined coverage receive a written notice with the specific reason that the application was declined. Those applicants accepted are bound as requested with the application. The insurance policy is printed and generally delivered to the producer for delivery to the insured. The insurance policy includes the annual consumer privacy notice, which states that Association does not share information with others for marketing purposes. As stated on each insurance policy, an Association employee is the designated attorney-in-fact to execute coverage for the members as required by the Plan of Operation.

The Association completes an in-depth interior and exterior inspection of all new homeowner risks, and new HO-4 and HO-6 risks over \$100,000 within the first 60 days of coverage, or as soon as possible after coverage is bound. The Association has 18 staff inspectors and four external vendors to conduct the inspections. All substandard conditions are reported on a standard inspection report, and significant deficiencies must be corrected or the policy will be cancelled. Re-inspections are conducted of all homeowner risks, and HO-4 and HO-6 risks over \$100,000, beginning in the fourth year of coverage. Also, inspections will be conducted for any increase in coverage greater than 25%, when the insured has a claim over \$25,000, and at the discretion of the underwriting department.

Underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for security features, safety features, and higher deductibles. The Association does not use credit in underwriting or rating. Policy forms and premium rates are filed with the Division and approved prior to use. All approved rates are loaded in the Association's underwriting and policy administration systems and are tested prior to use.

Approximately 60 days prior to policy expiration, risks are reviewed using renewal underwriting criteria to determine whether to make a renewal offer to the insured or to issue a non-renewal notice. If the Association wishes to remain on the risk, the Association will make an offer to the insured to renew the risk. A minimum 80% insurance to value is required for all renewals.

The Association has adopted a quality assurance process where underwriting decisions of each of the staff are reviewed periodically by management for training purposes and to support staff performance reviews. Management also monitors workloads and checks performance through weekly detailed reports summarizing underwriting activity. Periodic underwriting results are also presented to the Underwriting Advisory Committee.

RNA interviewed Association personnel with responsibility for the underwriting and rating processes. RNA selected 25 homeowners policies issued or renewed during 2014, and verified that each policy's premium, discounts and surcharges were accurate and complied with statutory and regulatory requirements. Additionally, for five of the new and five of the renewal policies, RNA tested the underwriting, use of policy forms and policy issuance for compliance with statutory and regulatory requirements. Finally, RNA selected 12 policy applications declined to ensure compliance with the Association's underwriting requirements, fair and consistent treatment, and issuance of written notices to applicants with the specific reason on the notices.



## Massachusetts Property Insurance Underwriting Association

Findings: None.

Observations: Based upon testing, the Association appears to calculate policy premiums, discounts, and surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. Also, new and renewal policies appear to be issued in accordance with the Association's procedures and statutory and regulatory requirements. Finally, declinations were processed in accordance with underwriting requirements, in a fair and consistent manner, with written notices to applicants with the specific reason on the notices.

Recommendations: None.

### Association Cancellations and Non-renewals for Underwriting Reasons

When the property does not meet the Association's underwriting requirements, including when the Association cannot complete the interior inspection due to the policyholder's lack of cooperation, a letter of deficiency is issued to the policyholder granting him or her 30 days to correct the deficiency or the policy will be cancelled mid-term. If the deficiency is not corrected, notices of cancellation for underwriting reasons are sent to the insureds and mortgagees at least 33 days prior to cancellation, with a copy of the notices sent to the producers. The specific statutory cancellation authority is stated on the notices.

Approximately 60 days prior to policy expiration, risks are reviewed using renewal underwriting criteria to determine whether to make a renewal offer to the insured or to issue a non-renewal notice. If items on letters of deficiency have not been corrected, the Association will non-renew the risk providing the non-renewal notice to the insured at least 45 days in advance with a copy to the mortgagee and producer.

RNA interviewed Association personnel with responsibility for the underwriting process. RNA selected 24 homeowners Association-initiated underwriting cancellations and 25 homeowners non-renewal transactions for testing. All transactions were evaluated for compliance with statutory and Association requirements.

Findings: For five of the Association-initiated underwriting cancellations, the specific reasons were not included on the cancellation notices as required by M.G.L. c. 175, § 99. Also, for 13 of the non-renewals, the specific reasons were not included on the non-renewal notices as required by M.G.L. c. 175, § 193P. Each of the notices referenced the previously mailed deficiency letter noting the substandard conditions have not been corrected.

Observations: Based on testing, except as noted above, the Association provided timely and adequate notice to the policyholders for Association-initiated underwriting cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons appeared reasonable and in compliance with statutory and regulatory requirements.

## Massachusetts Property Insurance Underwriting Association

Required Actions: The Association shall review controls and procedures and make any necessary changes to ensure that Association-initiated underwriting cancellations and non-renewals include specific reasons on the notices. Also, the Association shall provide training and guidance to staff about the processing of these notices.

Subsequent Association Actions: Internal procedures and controls were reviewed by Association management. Cancellations and non-renewals will include specific reasons on the notices. Additional training of staff has been conducted by Association management.

### Claims

The Association's claims handling process is organized in four home office units, and each unit is led by a Manager or Supervisor with a supervisory structure that includes claims examiners, independent adjusters, and support staff. Two property units handle all homeowner and dwelling fire property loss claims. One property unit is comprised of employee claims examiners, and the other property unit is responsible for coordinating large losses and working with approximately 17 independent adjusters. The Association also uses four catastrophe adjusting firms when needed. The liability unit handles liability claims and litigation. The administrative claims operations unit supports the claims department with initial claims processing and set-up, coordinating and delegating work assignments, monitoring volume and providing assistance and direction to third party vendors, independent adjusters, and Association personnel.

The Association's claims process and controls are documented in a written memorandum. The Association uses an electronic claims handling and work flow system. All adjusters are required to use Xactimate software to process property claims and document replacement cost estimates. The Association implemented the XactAnalysis claims system in September 2015 for newly filed property claims. XactAnalysis interfaces directly with Xactimate and the Association's financial system for claims payment and reserving. The Association states that this application change allows the Association to meet industry best practices for property claims adjudication, and allows adjusters quicker and easier claims processing, which will be useful during catastrophes.

Responsibility for handling the claims adjusting is split between liability and property coverages. All property claims are assigned initially to four claim examiners, who then assign the claims to an independent adjuster or internal claims adjusters based upon workload and availability. All liability claims are assigned to a claims examiner and an independent adjuster, with all related legal work handled by the Association's attorneys. The Association does not use purchased claim evaluation software in connection with assessing damages on bodily injury claims. An internally-developed bodily injury evaluation is required on all claims over \$5,000. The Association states that settlement offers are typically between the low and high settlement estimates, and exceptions are generally reviewed with management. Individual claim settlement authority limits are assigned to claims examiners commensurate with their experience. Unit examiners and Supervisors periodically review each active bodily injury claim. Claim professionals receive training regarding fraud red flags. All new claims are screened through an Insurance Services Office search tool. Reservation of rights and excess loss letters are issued when potential coverage or excess issues arise. These letters require management approval

## Massachusetts Property Insurance Underwriting Association

before being sent. The claims examiners are trained to complete Department of Revenue intercept checks according to statutory requirements, and to document the search results. Proof of loss is obtained for claims over \$10,000. Releases are routinely required from third party bodily injury claimants. Finally, for property claims, the Association's process for reporting claims in excess of \$1,000 to municipal authorities is to send the required letter to the appropriate municipality shortly after the claim is filed.

Criteria for Supervisor's periodic reviews of the claims examiners' work have been established, and such reviews are documented. From the claims system data, the Association produces metric reports for the daily, weekly and monthly claims reporting of key service and quality metrics including claims backlog. All claims denials have Supervisor approval.

RNA interviewed Association personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 13 paid claims, four denied or closed-without-payment claims, and eight open claims for testing. RNA tested each selected claim noting whether the investigations were conducted, whether the investigations were complete and whether the claims were processed timely. Further, each of the claims was tested for reasonableness and compliance with Association policies, and statutory and regulatory requirements.

Findings: None.

Observations: Testing indicated two claim processing errors. First, the Association did not properly and timely pursue subrogation opportunities in one claim.

Second, in testing a claim closed without payment, the insured had concurrent coverage with another insurer on the same home. A large fire occurred in 2012 during that concurrent coverage period, and the other insurer paid the fire claim. The Association's claims adjuster learned of the concurrent coverage when the claim was filed, and notified the other insurer of the concurrent coverage, but the other insurer never requested any contribution for the loss by the Association. Also, the Association says that the independent producer late reported the claim four months after the date of loss, and notified the Association that concurrent coverage was in place on the loss date. After two years, the Association closed the claim due to no request for payment from the other insurer. The other insurer cancelled coverage 10 days after the date of loss. The consumer remains an insured of the Association today.

Except as noted above, RNA noted that for each of the tested claims, complete investigations were conducted, and claims were processed timely. Further, each of the tested claims was reasonably handled in compliance with Association policies, and statutory and regulatory requirements.

Recommendations: The Association should ensure that the claim files and supervisory reviews clearly document subrogation opportunities and potential concurrent coverage issues. The Association should provide training to staff and conduct monitoring to ensure that subrogation is pursued and concurrent coverage issues are investigated.

## Massachusetts Property Insurance Underwriting Association

*Subsequent Association Actions:* On the first claim error noted above, the Association is pursuing that subrogation recovery and will reimburse the insured for the deductible if the recovery is successful. For the second claim error, at the Division's request, the Association inquired with the other insurer about the concurrent coverage and has made a payment of approximately \$107,000 for the Association's share of the claim. Internal subrogation and concurrent coverage procedures and controls were reviewed by Association management and have been updated. Management has reinforced with claims staff and adjusters the importance of subrogation referral and proper handling procedures.

### **SUBSEQUENT EVENTS**

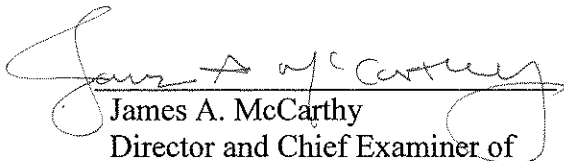
The Association had no subsequent events for disclosure in the examination report.

**SIGNATURE PAGE**

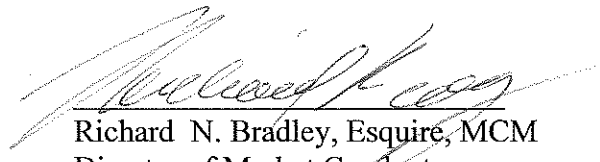
Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Association during the examination.

The assistance rendered by the following examiners participating in this examination is acknowledged.

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