THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

Report on the Comprehensive Market Conduct Examination of

Norfolk & Dedham Mutual Fire Insurance Company

Dedham, Massachusetts

For the Period January 1, 2009 through December 31, 2009

NAIC COMPANY CODE**: 23965**
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December 31, 2010

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, Section 4, a comprehensive examination has been made of the market conduct affairs of

NORFOLK & DEDHAM MUTUAL FIRE INSURANCE COMPANY

at their home offices located at:

222 Ames Street
Dedham, MA 02026

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 Norfolk & Dedham Mutual Fire Insurance Company ("Company") for the period January 1, 2009 to December 31, 2009. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, Section 4. The examination was conducted concurrently with examinations of Dorchester Mutual Insurance Company ("Dorchester") and Fitchburg Mutual Insurance Company ("Fitchburg"), as all companies are under common control and have common management, systems, processes and controls. The examination was conducted at the direction of, and under the overall management and control of, the examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2009 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 management, control and general supervision of the examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, examination staff discussed, reviewed and used procedures performed by the Division's financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

The basic business areas that were reviewed under this examination were as follows:

I. Company Operations/Management
II. Complaint Handling
III. Marketing and Sales
IV. Producer Licensing
V. Policyholder Service
VI. Underwriting and Rating
VII. Claims

In addition to the processes and procedures guidance in the Handbook, the examination included an assessment of the Company's internal control environment. While the Handbook approach detects individual incidents of deficiencies through transaction testing, the internal control assessment provides an understanding of the key controls that Company management uses to run its business and to meet key business objectives, including complying with applicable laws and regulations related to market conduct activities.

The controls assessment process is comprised of three significant steps: (a) identifying controls; (b) determining if the control has been reasonably designed to accomplish its intended purpose in mitigating risk (i.e., a qualitative assessment of the controls); and (c) verifying that the control is functioning as intended (i.e., the actual testing of the controls). For areas in which controls reliance was established, sample sizes for transaction testing were accordingly adjusted. The form of this report is "Report by Test," as described in Chapter 15, Section A of the Handbook.

EXECUTIVE SUMMARY

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

The Division considers a substantive issue as one in which corrective action on part of the Company is deemed advisable, or one in which a "finding," or violation of Massachusetts insurance laws, regulations or bulletins was found to have occurred. It also is recommended that Company management evaluate any substantive issues or "findings" for applicability to potential occurrence in other jurisdictions. When applicable, corrective action should be taken for all jurisdictions, and a report of any such corrective action(s) taken shall be provided to the Division.

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

The examination resulted in no recommendations or required actions with regard to company operations, complaint handling, and marketing and sales. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these sections. Further, the tested Company practices appear to meet industry best practices in these areas.

SECTION IV-PRODUCER LICENSING

STANDARD IV-3

Findings: None.

Observations: Based upon testing, the Company's notification of agent terminations to the Division and the agents was in compliance with statutory requirements. However, the Company's internal reports did not track notice and effective dates by company.

Recommendations: The Company should ensure that its internal reports track the date that notices are given to the agents and the Division, and the effective dates of the terminations by company.

SECTION V-POLICYHOLDER SERVICE

STANDARD V-6

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. However, the Company does not contact the producer to seek assistance in locating a lost policyholder to whom a payment is due, when the Company's letter to the customer is unanswered. Finally, the Company appears to report unclaimed items and escheat them as required by statute.

Recommendations: The Company should contact the producer to seek assistance in locating a lost policyholder to whom a payment is due, when the Company's letter to the customer is unanswered. This would include assistance in making the payment to the insured's estate if the insured is deceased.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-2

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: The Company should ensure that its field audits include testing for evidence of timely delivery of required disclosure forms at the point of sale.

STANDARD VI-7

Findings: None.

Observations: Based upon testing and review of the information available, Company-declinations were not unfairly discriminatory. RNA's review indicated that the Company's policy of using insurance scores for homeowners' minimum underwriting requirements appears to comply with statutory and regulatory requirements. However, the Company was unable to produce a complete record of homeowners' declinations provided by producers on the Company's behalf or information supporting all declinations selected for testing. A declination is defined by the Division as one where an applicant submits a formal signed application for coverage to the Company or the producer-agent, or when the Company or the producer-agent inquires about an applicant's insurance score from a consumer reporting agency, and as a result of the application submission or the receipt of the insurance score from the consumer reporting agency, is declined coverage either by the Company or producer-agent. The Company also does not track declinations by company or by applicant. Further, the Company has not instructed producers to retain information supporting declined applications, including declination notices provided to applicants, and has not monitored producers for proper declination practices. Finally, testing noted that the Company's information systems do not consistently classify declinations, nor distinguish declinations from submitted applications later withdrawn by the applicant, or other policy transactions, such as company-initiated cancellations, non-renewals, or insured-requested cancellations.

Recommendations: The Division strongly recommends that the Company obtain from the producers or a third party vendor, a quarterly listing of homeowners' applicants receiving written declination notices. The quarterly listing should be used to complete the required periodic audits of producers noted below.

Required Actions: The Company shall require that producers track all declinations by company and applicant, and retain copies of declination notices provided to all applicants, along with supporting documentation, for a five-year period. Based upon the Company's current underwriting guidelines, the Division understands that such declinations would generally be a result of an unacceptable insurance score. The Company shall complete periodic audits of producers for compliance with declination requirements including disclosures related to denials

based on insurance score. Also, the Company shall make the necessary systems changes to classify declinations properly and to distinguish declinations from submitted applications later withdrawn by the applicant, or other policy transactions, such as company-initiated cancellations, non-renewals, or insured-requested cancellations. Finally, the Company's internal audit department shall complete an independent assessment of the effectiveness of these new procedures by December 31, 2011, and report the results of the audit to the Division.

STANDARD VI-8

Findings: For one homeowners company-initiated cancellation, the coverage was cancelled due to the insured operating a business from his garage. The notice to the insured stated the reason as "underwriting reasons" and did not disclose the specific reason as required by M.G.L. c. 175, § 99.

Observations: Based upon testing and review of the information available, except as noted above, company-initiated cancellation and non-renewal notices, appeared to be timely provided with the specific reason for the action properly disclosed. However, the Company does not monitor its producers' statutory responsibility to provide timely delivery of non-renewal notices to policyholders. For example, RNA noted a complaint where a Company notice of non-renewal was timely provided to the producer-agent, but there was no evidence that the producer-agent gave timely notice of the non-renewal to the insured. Finally, our testing noted that the Company's information systems do not consistently classify company-initiated cancellations and non-renewals nor distinguish them from other policy transactions, such as rewritten policies or insured-requested cancellations.

Recommendations: The Company should issue a bulletin reminding its producers to timely deliver non-renewal or replacement notices to policyholders. Also, the Company should make the necessary systems changes to classify company-initiated cancellations and non-renewals properly and to distinguish them from other policy transactions, such as rewritten policies or insured-requested cancellations.

Required Actions: The Company shall ensure that all company cancellation notices to applicants provide a specific reason for the Company's decisions as required by M.G.L. c. 175, § 99. Finally, the Company's internal audit department shall complete an independent assessment of Company practices and statutory requirements by December 31, 2011, and report the results of the audit to the Division.

Subsequent Actions: The Company states that it has begun making changes to its information systems to ensure that all company-cancellation notices provide the specific reason for the action.

STANDARD VI-26

Findings: None.

Observations: Based upon testing, applications were generally properly completed, and policy files adequately supported the Company's decisions.

Recommendations: The Company should ensure that its field audits include testing for maintenance of certain underwriting information that is retained by the producers.

SECTION VII-CLAIMS

STANDARD VII-6

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 processes for handling claims are functioning in accordance with its policies, procedures and statutory requirements. Further, upon evaluation of claims-related complaints, such claims generally appeared to be properly handled. In one isolated instance for a tested bodily injury auto claim, the Department of Revenue website was not reviewed by the claims examiner for possible intercept or reporting of the claim payment. One of the attorneys involved in the claim reported the intercept obligation, such that the appropriate payment was timely made to the Commonwealth as required by M.G.L. c. 175, § 24D.

Recommendations: The Company should ensure that all claims examiners are reminded about the Department of Revenue intercept requirements and documentation thereof, and provide any training considered necessary to ensure statutory compliance with these requirements

COMPANY BACKGROUND

The Company is a member of the Norfolk and Dedham Group ("Group"), which is headquartered in Dedham, Massachusetts, and is comprised of three mutual companies: The Company, Dorchester and Fitchburg. Although their mutual structures do not allow for common ownership, the companies share common management, systems, controls and share, some common directors. The companies offer complementary products through common distribution channels, and share underwriting and claims operations. Effective January 1, 2002, each of the three mutual companies entered into an inter-company pooling agreement to share underwriting results on a proportional basis. The Company is primarily a multi-line writer in the Northeast, offering both homeowners and private passenger automobile coverage. The Company also offers commercial lines coverage that includes package policies for business owners and small artisans, as well as commercial automobile and workers' compensation coverage.

The Company's statutory surplus as of December 31, 2009 was $143.2 million with statutory admitted assets of approximately $270.6 million. All companies in the Group are rated A (Excellent) by A.M. Best.

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.

Objective: This Standard addresses whether there is an audit program function that provides meaningful information to management.

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

- The boards of directors of the Company, Dorchester and Fitchburg include some common directors, providing interlocking boards of directors between the companies. Similarly, the Company, Dorchester and Fitchburg have separate audit committees of four directors each with some directors common to each of the audit committees.
- The Company's internal audit director reports jointly to the three audit committees, the executive vice-president and treasurer.
- The internal audit plan is provided to the audit committees, which review and approve the plan annually in January. The internal audit plan includes regulatory compliance, operational and market conduct audits. The audit committees review the results from the prior year's audits and a five-year summary of the internal audits pending and completed.
- The Company has instituted procedures to ensure independent internal audits and appropriate segregation of duties. First, an audit coordinator is selected by the chief executive officer, who also formally approves the specific audit procedures. Once approved, the audit coordinator completes the audit procedures and sends a written report to the chief executive officer for approval. The chief executive officer assigns an independent compliance monitor to ensure that any recommendations are effectively implemented. A monthly status report is provided to the chief executive officer on the status of pending and completed audits.
- The Company recently began conducting periodic agency audits to monitor compliance with recordkeeping requirements such as signed applications and underwriting support.
- The underwriting department completes quality assurance reviews of underwriters, and the results are summarized and reported to management.
- Claims management perform periodic quality assurance claim reviews to evaluate compliance with Company claims policies, and use exception reports to measure operational effectiveness and claim processing time.
- The Company is subject to periodic audits by Commonwealth Automobile Reinsurers ("CAR") for compliance with statutes and CAR Rules of Operation. CAR is the industry operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The Company is subject to periodic audits by the Department of Industrial Accidents ("DIA") for compliance with Massachusetts workers' compensation requirements.
- The Company's statutory financial statements are audited annually by an independent accounting firm.

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

Transaction Testing Procedure: RNA reviewed various internal audit reports, quality assurance claim reviews, quality assurance underwriting reviews, CAR audits and DIA audits to evaluate procedures performed and results obtained. Issues noted in such reports were further investigated and discussed with management.

Transaction Testing Results:

Findings: None.

Observations: The internal audit reports, quality assurance claim reviews, quality assurance underwriting reviews, CAR audits and DIA audits reviewed by RNA provided detailed information on the procedures performed, audit findings and recommendations for improvement. The review of these audits indicated that the Company is generally in compliance with policies, procedures and regulatory requirements.

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 Division's ongoing statutory financial examination of the Company.

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

18 U.S.C. § 1033; Division Bulletins 1998-11 and 2001-14.

Objective: This Standard addresses whether the Company has an anti-fraud plan that is adequate, up-to-date, in compliance with applicable statutes and appropriately implemented.

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 ("Act"), it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or breach of trust or certain other offenses, and who willfully engages in the business of insurance as defined in the Act. In accordance with Division Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts must notify the Division in writing of all employees and producers affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

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

- The Company has a written plan to address fraud throughout the organization.
- The Company has a Special Investigative Unit ("SIU") dedicated to the prevention and investigation of fraudulent activities.
- The Company adheres to SIU standards established by CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.

- Potentially fraudulent activity is tracked by the SIU and investigated. Fraud activity is reported to the Massachusetts Insurance Fraud Bureau, a Commonwealth agency which investigates fraud and refers appropriate cases for criminal prosecution.
- All new employees must attest on the employment application that they have not been convicted of a felony, or if they have, they must explain the conviction.
- The Company's policy is to seek the Division's approval regarding the hiring of any "prohibited person" in instances where the Company wishes to employ such a person.

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

Transaction Testing Procedure: RNA reviewed the anti-fraud policies and procedures, and the work of the SIU, as part of various complaint, underwriting and claims standards.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Objective: This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements.

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

- The Company uses independent agents to sell the Company's products. The agent contracts describe agent authorities, premium accounting, authority suspension, agent termination, ownership of expirations, indemnification, commissions, profit sharing, binding arbitration, notice procedures, privacy requirements, compliance with Federal crime laws, producer licensure requirements and errors and omission coverage requirements.
- The Company recently began conducting periodic agency audits to monitor compliance with recordkeeping requirements such as signed applications and underwriting support.
- The Company's workers compensation claims processing is outsourced to an unaffiliated third party administrator ("TPA"). The TPA contract contains performance standards requiring timely and accurate claims processing and compliance with all applicable laws and regulations. The

Company monitors monthly activity reports from the TPA to ensure compliance with Company policies and procedures.

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions. RNA also reviewed the standard agent contract and the TPA contract.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf. Monitoring of agents for underwriting documentation and point of sale disclosures is contained in Standards VI-2, VI-7, VI-8 and VI-26.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties who perform Company functions. As part of new and renewal business testing, RNA reviewed agent documentation that supports the new or renewal business sold. RNA also reviewed TPA activity reports on workers' compensation claims.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the adequacy and accessibility of the Company's records.

Controls Assessment: The Company has adopted written record retention requirements, including 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 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.

M.G.L. c. 175, §§ 32 and 47.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 4.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

Observations: The Company cooperated with examiners and was responsive to examination requests.

Recommendations: None.

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

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

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

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such disclosure.

Controls Assessment: The following controls were noted in review of Standards I-10 through I-16:

- Company policy requires that a consumer privacy notice be provided to applicants when the policy is delivered by the agent.
- The annual privacy notice is provided to customers with renewal notices. The Company also provides their 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. Company policy is to disclose information only as required or permitted by law to third parties who assist the Company in processing business transactions for its customers.
- The Company does not sell or share information with anyone for marketing purposes. As such, there is no need to provide policyholders with "opt out" rights. The Company states that they do not obtain investigative consumer reports on customers as part of underwriting, and that they do not conduct pretext interviews.
- The Company requires the TPA to provide a confidentiality agreement stipulating that the TPA will comply with privacy laws, regulations, policies and procedures.

- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information. The Company conducts an information systems risk assessment to consider, document and review information security threats and controls. 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 and such access is monitored.
- The Company periodically conducts internal audits related to privacy matters.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed recently completed internal audits related to privacy. Finally, RNA reviewed claims documentation for any evidence of the use of pretext interviews.

Transaction Testing Results:

Findings: None.

Observations: The Company's privacy practices appear to minimize any improper intrusion into applicants' and policyholders' privacy, and are disclosed to policyholders in accordance with the Company's policies and procedures. Further, based upon the results of claims testing, RNA noted no evidence of the use of pretext interviews.

Recommendations: None.

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

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

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

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

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

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

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313, set forth requirements for proper notice to consumers, and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has

not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: Based up review and testing, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to parties other than the applicant.

Recommendations: None.

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

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

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

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation its supporting privacy policies and procedures. As part of testing of private passenger automobile and homeowners policies issued or renewed during the examination period, RNA inquired about whether a proper privacy notice was provided.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient privacy notice

to applicants regarding its treatment of non-public personal financial information, in accordance with Company policy.

Recommendations: None.

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

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

Objective: This Standard addresses policies and procedures with regard to opt out rights.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: The Company does not share nonpublic personal financial information with anyone for marketing purposes. Thus, the Company is not required to offer an "opt out" for such information sharing.

Recommendations: None.

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

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

Objective: This Standard addresses the Company's policies and procedures regarding collection, use and disclosure of non-public personal financial information.

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial

institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. 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 review and testing, the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses non-public personal financial information. RNA noted no instances where the Company improperly collected, used or disclosed non-public personal financial information.

Recommendations: None.

Standard I-16. In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the 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.

Health Insurance Portability & Accountability Act of 1996 ("HIPAA") Public Law 104-191; 45 CFR Parts 160 and 164.

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information.

HIPAA Public Law §§ 104-191 and 45 CFR Parts 160 and 164 set forth proper procedures for inquiry, release, disclosure and maintenance of non-public personal health information.

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 claims documentation for any evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing of claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company's policies and procedures provide reasonable assurance that the Company properly protects non-public personal health information. RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of claims.

Recommendations: None.

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

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

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

The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313, set forth requirements for proper notice to consumers, and restrictions on a financial institution's ability to disclose consumers' non-public personal information to nonaffiliated third parties. Further, a financial institution must provide its customers with an annual written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing consumers' non-public personal information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt out of such disclosure.

Controls Assessment: 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 conducts an information systems risk assessment to consider, document and review information security threats and controls. 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 and such access is monitored.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. Review of information technology access and authorization controls is also included in the scope of the Division's ongoing statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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.

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute.

Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints it received from the date of its last examination. The record must indicate the total number of complaints, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint and the time taken to process each complaint.

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

- The Company considers any written complaint or grievance received from the Division or the Massachusetts Attorney General's a governmental complaint, which is handled according to written complaint handling procedures.
- All other written grievances are considered non-governmental complaints, which are handled directly by the individual business units according to written complaint handling procedures.
- Governmental complaints are distributed by the general counsel to the appropriate business unit for investigation and preparation of the response within 14 days. The response is reviewed by management before sending it to the regulator.
- The governmental complaint log includes the date received, Company, state, complainant, policy or claim number, person responsible, type, response date due, follow up comments from the regulator, disposition, action and disposition date.
- The governmental complaint log is provided to the chief executive officer quarterly with any trends or unusual activity noted.
- Non-governmental complaints are received directly in the business units and are entered into individual complaint logs by the business unit. The complaints are to be handled within 14 days when possible.
- The non-governmental complaint log includes the date received, Company, state, policy or claim number, person responsible, line of business, nature, response date due, disposition, action and disposition date.
- The non-governmental complaint log includes any claim survey responses received with negative comments.
- Company management review the non-governmental complaint logs from the business units semi-annually and provide them to the chief executive officer and chief financial officer.
- The Company provides a telephone number and address in its written responses to complaints and consumer inquiries and on its web site.

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 governmental and non-governmental complaint logs for 2009 and 2010 to evaluate the Company's compliance with the provisions of M.G.L. c. 176D, § 3(10) and to determine whether the governmental complaint logs included all complaints filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's governmental and non-governmental complaint logs included all statutorily-required database elements and that the governmental complaint logs included all complaints filed with the Division.

Recommendations: None.

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

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company has adequate complaint handling procedures, and communicates those procedures to policyholders and consumers.

M.G.L. c. 176D, § 3(10) requires that (a) the Company has documented procedures for complaint handling; (b) the procedures in place are sufficient to enable satisfactory handling of complaints received as well as to conduct root cause analyses in areas developing complaints; (c) there is a method for distribution of and obtaining and recording responses to complaints that is sufficient to allow response within the time frame required by state law; and (d) the Company provides a telephone number and address for consumer inquiries.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 16 2009 and 2010 Division complaints from the governmental complaint log to evaluate the Company's compliance with the provisions of M.G.L. c. 176D, § 3(10). RNA reviewed the complaint handling for each of these complaints, including the adequacy of documentation supporting the facts and resolution of each complaint. In addition, RNA reviewed the Company's web-site, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether the Company's response to the complaint fully addresses the issues raised, and whether policyholders or consumers with similar fact patterns are treated consistently and fairly.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 16 2009 and 2010 Division complaints from the governmental complaint log 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 reviewed. Documentation for the complaints appeared complete, including the original complaint and related correspondence. It appears that complainants with similar fact patterns are treated consistently and reasonably.

Recommendations: None.

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

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 16 2009 and 2010 Division complaints from the governmental complaint log to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company appeared to address timely each of the tested complaints 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.

M.G.L. c. 176D, § 3; Division Bulletins 2001-02 and 2009-14.

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.

Pursuant to M.G.L. c. 176D, § 3, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. Pursuant to Division Bulletin 2001-02, an insurer who maintains an Internet website must disclose on that website the name of the company appearing on the certificate of authority and the address of its principal office. Division Bulletin 2009-14 provides guidelines regarding truth in advertising and marketing of private passenger motor vehicle policies.

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

- The Company has adopted written policies and procedures for review and use of advertising and sales materials, including materials from producers.
- The Company maintains a log of all submitted advertising and marketing materials, which are to be reviewed and approved by the Company's management prior to use. The log documents the date of the reviewer's approval.
- The Company's advertising generally consists of small agency advertisements that include the Company's name, which are printed in small community newspapers.
- 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 reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed sales and marketing materials for any evidence of the use of unapproved materials as part of new and renewal business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's website disclosure complies with the requirements of Division Bulletin 2001-02. RNA noted no evidence of the use of unapproved 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.

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

- The Company provides training to producers focusing on Company policies, practices and procedures, including those relating to underwriting and rating, policyholder service, and claims.
- The Company's producers have access to electronic information on Company policies and procedures through the Company's agent web portal.

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

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

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's producer training materials appear accurate and reasonable.

Recommendations: None.

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

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with Company policies and procedures.

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 producer communications, and reviewed several such communications to producers during the examination period for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review, procedures for communications to producers generally appear appropriate and reasonable.

Recommendations: None.

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

M.G.L. c. 175, § 193R.

No work performed. This Standard is not covered in the scope of examination because the Company does not mass market property and casualty insurance in Massachusetts.

IV. PRODUCER LICENSING

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

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

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

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

M.G.L c. 175, § 162I requires that all persons who solicit, sell or negotiate insurance in the Commonwealth be licensed for that line of authority. Further, any such producer shall not act as an agent of the Company unless the producer has been appointed by the Company pursuant to M.G.L c. 175, § 162S. Pursuant to 18 U.S.C. § 1033 of the Act, it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers acting as agents who are affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

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

- The Company's appointment procedures are designed to comply with statutory requirements, which require that a producer, who is to be appointed as agent, must be appointed within 15 days from the date the agent's contract is executed.
- The Company's policy is to seek the Division's approval regarding the appointment of any "prohibited person" as noted above, in instances where the Company wishes to appoint such a person as agent.
- The Company maintains an automated producer database that tracks all producer terminations, appointments and other licensing changes relating to appointed agents.
- The Company verifies that producers are properly licensed for the lines of business to be sold in Massachusetts, prior to contracting with them as agents.
- The Company's agent contracts describe agent authorities, premium accounting, authority suspension, agent termination, ownership of expirations, indemnification, commissions, profit sharing, binding arbitration, notice procedures, privacy requirements, compliance with Federal crime laws, producer licensure requirements and errors and omission coverage requirements.
- All agent appointments and terminations are processed through the Division's On-Line Producer Appointment ("OPRA") system.
- The Company's producer database tracks appointed agents' license expiration dates. Notices are sent to agents as a reminder to renew their licenses and submit appropriate documentation to the Company. Company personnel follow up with the agent if documentation of renewal is not received timely.
- The Company prepares a monthly reconciliation of its appointment list to the Division's list with any differences researched and addressed.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA reviewed evidence of agent appointments in conjunction with testing of 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation policies issued or renewed during the examination period. RNA verified that the agent for each policy was 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.

Recommendations: None.

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

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

Refer to Standard IV-1.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: This Standard addresses the Company's termination of producers in accordance with applicable statutes requiring notification to the state and the producer.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent, and the reasons for which the Division may terminate a producer's license.

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and termination processing. RNA selected three terminated agents from the Company's termination listing and the Division's termination records, compared the termination information on both listings, and reviewed evidence that notice to the Division and the agents complied with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's notification of agent terminations to the Division and the agents was in compliance with statutory requirements. However, the Company's internal reports did not track notice and effective dates by company.

Recommendations: The Company should ensure that its internal reports track the date that notices are given to the agents and the Division, and the effective dates of the terminations by company.

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. In conjunction with testing of 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation policies issued or renewed during the examination period and three agent terminations, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's producer appointment and termination policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 162R and 162T.

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

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent, and the reasons for which the Division may terminate a producer's license.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's internal records adequately document reasons for agent terminations. No agents were terminated "for cause" as defined by statute during the examination period.

Recommendations: None.

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

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

V. POLICYHOLDER SERVICE

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

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

M.G.L. c. 175, §§ 193B and 193B ½.

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

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

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

- Policyholders may choose to pay their premiums in full, in four installments, or in 10 installments. In addition, electronic funds transfer is available for the 10 installment payment plan.
- Policyholders receive renewal and billing notices from the Company approximately 40 days prior to the effective date of the renewal. The agent later sends a policy declaration page indicating the coverage type and limits with the applicable premium.
- The agent usually collects and remits to the Company a 10% or 25% premium down payment for new business.
- The entire premium must be paid for anyone that receives three cancellation notices for non-payment within a policy term.
- Customer service call center representatives answer questions from policyholders and agents about billing. The Company has developed standards for customer service call center representatives, 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 and installment fees charged, in conjunction with new and renewal business testing for all lines of business.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of billing notices and installment fees charged, billing notices appeared to be mailed with an adequate amount of advance notice. Monthly service charges on installment payments appeared to be properly applied.

Recommendations: None.

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

M.G.L. c. 175, § 187B; Division Bulletin 2008-10.

Objective: This Standard is concerned with whether the Company has cancellation procedures to ensure that such policyholder requests are processed timely. Policy issuance testing is included in Standard VI-6. Return of premium testing is included in Standard V-7.

Pursuant to M.G.L. c. 175, § 187B, insurers are required to return premium in a reasonable time upon the policyholder's request to cancel. Division Bulletin 2008-10 requires private passenger automobile insurers to accept transfer requests from other insurers.

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

- An automobile policyholder may cancel his or her 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 the policyholder has moved out of Massachusetts.
- Company policy is to cancel a policy upon notification from the agent of the policyholder's request, and to process premium refunds in a timely manner.
- All unearned premium is refunded to the policyholder on a pro-rata basis pursuant to statutory and regulatory guidelines.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested three private passenger automobile, one commercial automobile, three homeowners and one commercial property/liability and one workers' compensation insured-requested cancellation 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 appeared to be 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.

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

- The Company has customer service call center representatives who answer policyholders' general questions about their policies or billing matters.
- The Company considers its 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 through customer service, the policyholder can be transferred or will be referred to the agent for servicing.
- The Company monitors customer service call response times, call abandon rates and individual customer service representatives' time use, to ensure that adequate resources are available to address customer inquiries.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed correspondence in conjunction with underwriting, rating and policyholder service standards. Additionally, RNA obtained documentation showing customer service representatives' compliance with time and service standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of the above information and review of general correspondence between policyholders, claimants and the Company regarding underwriting, rating, and policyholder service, 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, renewal 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 cancellations and non-renewals are tested in Standards VI-7 and VI-8.

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

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

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

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

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

- Company policy requires that un-cashed checks including claims and premium refunds be reported and escheated when the owner cannot be located.
- The Company has implemented procedures to locate lost owners via Company records and public databases.
- For un-cashed checks, quarterly, the Company conducts further research and sends a letter to the last known address in an attempt to locate the owner. If there is no response or the letter is returned, the item is tracked for escheatment.
- The Company annually reports escheatable funds to the State Treasurer by November 1st as required by statute.

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

Transaction Testing Procedure: RNA discussed with Company personnel the Company's procedures for locating missing policyholders and claimants, and for escheating funds, and reviewed supporting documentation.

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. However, the Company does not contact the producer to seek assistance in locating a lost policyholder to whom a payment is due, when the Company's letter to the customer is unanswered. Finally, the Company appears to report unclaimed items and escheat them as required by statute.

Recommendations: The Company should contact the producer to seek assistance in locating a lost policyholder to whom a payment is due, when the Company's letter to the customer is unanswered. This would include assistance in making the payment to the insured's estate if the insured is deceased.

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.

M.G.L. c. 175, §§ 113A, 176A, 187C and 187D; 211 CMR 97.05.

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

Pursuant to M.G.L. c. 175, § 187C, written notices of cancellations are required from insurers. Pursuant to M.G.L. c. 175, § 187D, insurers have the right to cancel a policy for non-payment of premium. M.G.L. c. 175, §§ 113A and 176A, and 211 CMR 97.05 allows for the use of short-rate tables to calculate automobile refunds in certain instances.

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 three private passenger automobile, one commercial automobile, three homeowners and one commercial property/liability and one workers' compensation insured-requested cancellation 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.

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

- The Company's claims personnel and producers have access to claims history and paid loss information for personal lines policyholders from a statewide automobile claim database, and a private Comprehensive Loss Underwriting Exchange database.
- When requested by the policyholder, the Company states that it or the producer will provide the policyholder with his or her claims history and paid loss information.

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

Transaction Testing Procedure: RNA discussed with Company personnel its policies and procedures for responding to policyholder inquiries regarding claims history and paid loss information and reviewed claim documentation for any evidence of the Company being non-responsive to policyholder inquiries on claim history and paid loss information in testing of underwriting and rating, claims, complaints and policyholder service.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 174A, §§ 5, 6, and 9; M.G.L. c. 175A, §§ 5, 6 and 9; M.G.L. c. 175E, §§ 4 and 7; M.G.L. c. 175, §§ 113B, 111H and 193R; M.G.L. c. 152, § 53A; 211 CMR 56.04, 78.00, 91.00, 110.00, 113.00, 115.00 and 134.00; Division Bulletins 2008-04 and 2008-08.

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

Pursuant to M.G.L. c. 174A, § 5, rates for fire, marine and inland marine coverage shall be experienced based and not unfairly discriminatory. Affiliates may make the same rate filings or use the same rates. Pursuant to M.G.L. c. 174A, § 6, insurers shall file rates with the Commissioner 15 days before their effective date. Pursuant to M.G.L. c. 174A, § 9, members of rating organizations must use their filed rates, or must file separate rates. Pursuant to M.G.L. c. 175A, § 5, rates for commercial insurance shall be based on experience and shall not be unfairly discriminatory. Affiliates shall have the right to make the same filings or to use the same rates. Rates shall not be excessive, inadequate or unfairly discriminatory, and must be filed with the Commissioner as provided by M.G.L. c. 175A, § 6 prior to use. Insurers must also use filed rates, unless they obtain approval for a rate deviation, as set forth in M.G.L. c. 175A, § 9.

Pursuant to M.G.L. c. 175E, § 7, every insurer, or rating organization authorized to file on behalf of such insurer, shall file with the Commissioner every manual of its classifications, rules and rates, rating plans and modifications of any of the foregoing, not less than 45 days before the effective date thereof. Pursuant to M.G.L. c. 175, § 113B, various discounts and surcharges are statutorily mandated. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. Pursuant to M.G.L. c. 175E, § 4, rates shall not be excessive, inadequate or discriminatory, and shall be discounted 25% for insureds age 65 or older. Pursuant to 211 CMR 56.04, premium discounts are mandated for election of optional repair shop endorsement plans. Pursuant to 211 CMR 78.00 private passenger and commercial auto rate filings and hearing requirements are outlined. M.G.L. c. 175, §111H requires that insurers cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. 211 CMR 91.00 governs activities of rating organizations, form and content of automobile rate filings and the conduct of related hearings. 211 CMR 134.00 requires each driver to receive a step rating according to the Safe Driver Insurance Plan, which requires corresponding discounts and surcharges. Division Bulletin 2008-04 discusses procedures for filing forms and rates for commercial terrorism coverage and required disclosures. Division Bulletin 2008-08 outlines guidelines for filing rate and form filings for all lines of business.

M.G.L. c. 152, § 53A specifies a rate filing process and statistical reporting requirements for workers compensation policies using experience rating credits and payroll caps to ensure equitable distribution of premium based on wage differentials. Further, rates and producer commissions for business ceded to the Commonwealth reinsurance pool are determined by the Division. 211 CMR 110.00, 211 CMR 113.00 and 211 CMR 115.00 provide guidance on workers' compensation rate filing procedures, premium credit filings and the conduct of rate hearings.

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.
- Producers submit application data and billing mode information either in paper form or electronically using a web-based interface system, which is also used for quoting, rating and underwriting.
- 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.
- Effective April 1, 2008 private passenger automobile rates, previously fixed and established by the Commonwealth, are filed with the Division and approved prior to use.
- Private passenger automobile underwriting criteria include, driving history, loss history, and youthful driver status. The Company does not use insurance scores in private passenger automobile underwriting or rating.
- The low mileage discount form, which verifies actual private passenger automobile mileage, must be completed annually to receive the low mileage discount.
- Commercial automobile rates are filed with the Division and approved prior to use.
- Company policy requires that homeowners and commercial property/liability rates are based on Insurance Services Office ("ISO") rates, and the Company files such rates with the Division for approval to comply with statutory and regulatory requirements.
- Homeowners rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for home and automobile coverage, seniors, new construction, security features, safety features, multi-year renewals, and higher deductibles.
- Commercial property/liability rating criteria include territory, coverage amount and type, property age, protection class and structure type. For business owner policies, rates are generally based on the number of employees, payroll and type of business code.
- The Company files its rates with the Massachusetts Workers' Compensation Rating and Inspection Bureau ("WCRIB"), which serves as a rating organization and statistical agent. The WCRIB files its rates with the Division on behalf of the Company. Such rates are generally based on the number of employees, payroll and job classification code. The WCRIB also serves as the Division's assigned risk pool administrator and the DIA's coverage verification entity. The WCRIB has not audited the Company's worker's compensation statistical reporting since 1998.
- The DIA conducts periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants.
- All of the Company's rates are maintained electronically. Prior to implementing rate changes, new rates are subject to user testing.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information, including evidence of user testing of rate changes. In conjunction with new and renewal business testing, RNA selected 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation policies issued or renewed during the examination period, to test rate classifications and underlying policy information. RNA verified that each policy's premium, discounts and surcharges complied with statutory and regulatory requirements. In addition RNA selected three private passenger automobile, two commercial automobile, three homeowners and one workers'

compensation policy issued during the examination period to test the accuracy of the policy's rated premium. RNA verified that each policy's premium agreed with the Company's rates filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company calculates policy premiums, discounts and surcharges in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division.

Recommendations: None.

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

M.G.L c. 174A, § 11; M.G.L. c. 175A, § 11; M.G.L. c. 175E, §§ 11 and 11A; M.G.L. c. 175, §§ 99 and 99A; M.G.L. c. 152, § 25A; 211 CMR 113.00 and 115.00; Division Bulletins 2008-04, 2008-05 and 2008-07.

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

Pursuant to M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11, the insurer will furnish any requested rate information to the insured in a timely manner. Pursuant to M.G.L. c. 175E, § 11, an information guide, which outlines available coverage choices and approximate cost differences among various types of coverage and among competing carriers, shall be provided upon application. Pursuant to M.G.L. c. 175E, § 11A, producers shall disclose coverage options in simple language to every person they solicit, including the option to exclude oneself and members of one's household from personal injury protection coverage. Pursuant to M.G.L. c. 175, § 99, fire policy form requirements include coverage for tenant relocation for landlord multi-unit residential property. Pursuant to M.G.L. c. 175, § 99A, fire policies must disclose exclusion of coverage for nuclear contamination. Division Bulletin 2008-04 discusses required disclosures and procedures for filing forms and rates for commercial terrorism coverage. Division Bulletin 2008-05 requires insurers to provide private passenger automobile consumers with a "Ways to Save Guide." Division Bulletin 2008-07 requires insurers to obtain written acknowledgement from applicants for automobile policies with a six month term.

Pursuant to M.G.L. c. 152, § 25A, each insurer must offer policy deductibles for workers compensation policies, including reasonable small deductibles optional to the policyholder, which shall be fully disclosed to prospective policyholders in writing. 211 CMR 113.00 and 211 CMR 115.00 provide additional guidance on deductibles.

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 are designed to ensure that new business submissions from producers are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.

- The Company provides private passenger automobile information guides to producers, who are required to provide them to consumers.
- The Company recently began conducting periodic agency audits to monitor compliance with recordkeeping requirements such as signed applications and underwriting support.

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 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation 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: The Company should ensure that its field audits include testing for evidence of timely delivery of required disclosure forms at the point of sale.

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

M.G.L. c. 175, §§ 182, 183 and 184; M.G.L. c. 176D, § 3(8); M.G.L. c. 152, § 53A.

Objective: This Standard addresses illegal rebating, commission cutting or inducements, and requires that producer commissions adhere to the commission schedule.

Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, the Company, or any agent thereof, cannot pay or allow, or offer to pay or allow any valuable consideration or inducement not specified in the policy or contract. Similarly, under M.G.L. c. 176D, § 3(8), it is an unfair method of competition to knowingly permit or make any offer to pay, allow or give as inducement any rebate of premiums, any other benefits or any valuable consideration or inducement not specified in the contract. M.G.L. c. 152, § 53A requires the Division to determine producer commissions for workers' compensation business ceded to the Commonwealth reinsurance pool.

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

- The Company has procedures for paying producers' commissions in accordance with written contracts.
- The Company's producer contracts, policies and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for commission processing and producer contracting. In connection with the review of producer contracts, RNA inspected new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or inducements. Also, in conjunction with new and renewal business testing, RNA selected 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation policies issued or renewed during the examination period, to review commissions paid to producers and for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

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

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.

M.G.L. c. 175E, § 4; M.G.L. c. 175, §§ 4C, 22E, 95B, 113K, 113N and 193T; M.G.L. c. 175A, § 5; M.G.L. c. 174A, § 5 and Division Bulletin 2008-17.

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting. See Standard VI-7 for testing of declinations.

Pursuant to M.G.L. c. 175E, § 4, automobile rates shall not be excessive, inadequate or discriminatory, and shall be discounted 25% for insureds age 65 or older. M.G.L. c. 175, § 4C states insurers may not discriminate based on race, color, religious creed, national origin or sex when issuing or renewing homeowners' policies. M.G.L. c. 175, § 22E, states that insurers may not refuse to issue or renew an automobile policy based on an insureds age, sex, race, occupation or marital status, or the vehicle's principal place of garaging. M.G.L c. 175, § 95B prohibits discrimination against abuse victims in residential property insurance sales. M.G.L c. 175, § 113K states a person aged 16 or older may purchase automobile insurance, and M.G.L. c. 175, § 113N prohibits medical exams as a condition of underwriting an automobile policy. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation or physical impairment, unless such discrimination is "based on sound actuarial principles or is related to actual experience." M.G.L. c. 175A, § 5 states rates for commercial automobile and multi-peril policies shall be based on past and prospective loss experience, a reasonable margin for underwriting profit and contingencies, investment income, unearned premium reserves and loss reserves, and shall not be excessive, inadequate or unfairly discriminatory. M.G.L. c. 174A, § 5 states fire rates for commercial multi-peril policies shall be based on past and prospective loss experience during a period of not less than the most recent five-year period for which such experience is available. Division Bulletin 2008-17 provides guidelines for placement of automobile policies with specific companies within a holding company system, or among risk categories within one company.

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

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.

- Written Company 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 underwriting department to determine whether they should be accepted or rejected.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation policies issued or renewed during the examination period, to test for evidence of unfair discrimination in underwriting.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 2B, 22A, 99, 99B, 111H, 113A and 192; M.G.L. c. 152, § 53A; 211 CMR 131.00; Division Bulletins 2008-04, 2008-08 and 2009-06.

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

Pursuant to M.G.L. c. 175, § 2B, policy form language, size and content standards for all policies must meet statutory requirements for readability and understanding. M.G.L. c. 175, § 22A requires the filing of automobile policy forms prior to use. M.G.L. c. 175, § 99 outlines policy form requirements, including coverage for tenant relocation for landlord multi-unit residential property. M.G.L. c. 175, § 99B outlines form authority and approval for commercial property and multi-peril condominium risks. M.G.L. c. 152, § 53A requires workers' compensation policy forms to be filed with the Division. M.G.L. c. 175, § 111H states insurers shall cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. Pursuant to M.G.L. c. 175, § 113A, insurers must give 20 days' notice to cancel, they must obtain a certificate of mailing receipt from post office, and return premium must be mailed. M.G.L. c. 175, § 192 states endorsements are part of policy forms, and must be filed with the Division prior to use. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing. Division Bulletin 2008-04 discusses procedures for filing forms and rates for commercial terrorism coverage and required disclosures. Division Bulletin 2008-08 outlines guidelines for rate and form filings for all lines of business. Division Bulletin 2009-06 outlines guidelines for deductibles for commercial motor vehicle liability policies.

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

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses the Automobile Insurer's Bureau of Massachusetts ("AIB")

Massachusetts Private Passenger Automobile Form 8th Edition, which has been approved by the Division.

- Company policy requires that all homeowners, commercial property/liability and workers' compensation policy forms and endorsements be filed and approved by the Division prior to use.
- Producers are required to use approved forms and endorsements 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 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation 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.

211 CMR 94.00.

Objective: This Standard addresses whether the Company issues policies and endorsements timely and accurately.

211 CMR 94.00 outlines required standards and procedures for pre-insurance inspections of motor vehicles, exemptions from such requirements and related provisions for suspension of physical damage coverage for no inspection.

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.
- Applications submitted by producers are reviewed by the underwriting department to ensure that they are complete and internally consistent.
- Any changes in policy coverage must be requested through the producer, who must timely process such requests.
- Pre-insurance inspections are required for new coverage of used private passenger automobiles, unless the applicant has been insured with the Company for three consecutive years. Waivers from pre-insurance inspections are allowed for hardship reasons, a lack of inspection facilities near the applicant, producer book of business transfers, and for automobiles ten years and older.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules. The DIA conducts periodic audits of the Company's quarterly assessment calculations for

determining payments to the Workers Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants.

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 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability, and five workers' compensation policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely. Also, RNA selected 30 private passenger automobile policies issued during the examination period, to test whether the Company complied with pre-insurance inspection requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely. In addition, each of the tested private passenger automobile policies was issued in compliance with pre-insurance inspection requirements.

Recommendations: None.

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

M.G.L. c. 175, §§ 4C, 22E, 95B, 113D and 193T.

Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices.

Pursuant to M.G.L. c. 175, § 4C, insurers may not discriminate based on race color, religious creed, national origin, sex, etc. when issuing or renewing homeowners' policies. M.G.L. c. 175, § 22E states insurers may not refuse to issue or renew an automobile policy based on an insured's age, sex, race, occupation or marital status, or the vehicle's principal place of garaging. M.G.L. c. 175, § 95B states insurers cannot discriminate against abuse victims in residential property insurance sales. Pursuant to M.G. L. c. 175, § 113D, automobile policyholders who are canceled or rejected for coverage can file a complaint within 10 days with the Board of Appeals. Policies continue in-force through the expiration date pending appeal. M.G.L. c. 175, § 193T states that insurers may not discriminate based on blindness, mental retardation or physical impairment, unless such discrimination is "based on sound actuarial principles or is related to actual experience."

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Insurance applications for all lines of business may be declined by the underwriting department if the risks do not meet the Company's underwriting guidelines. In addition, homeowners' applicants may be declined for coverage if the applicants do not meet minimum insurance score thresholds set by the Company.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.

- Company policy requires producers to provide applicants with declination notices when applicants do not meet the Company's minimum standards for 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 selected four private passenger automobile, one commercial automobile, four homeowners, one commercial property/liability, and one workers' compensation declination processed during the examination period to ensure that declinations were not unfairly discriminatory. RNA also tested private passenger automobile and homeowners declination notices for compliance with statutory notice requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing and review of the information available, Company-declinations were not unfairly discriminatory. RNA's review indicated that the Company's policy of using insurance scores for homeowners' minimum underwriting requirements appears to comply with statutory and regulatory requirements. However, the Company was unable to produce a complete record of homeowners' declinations provided by producers on the Company's behalf or information supporting all declinations selected for testing. A declination is defined by the Division as one where an applicant submits a formal signed application for coverage to the Company or the producer-agent, or when the Company or the producer-agent inquires about an applicant's insurance score from a consumer reporting agency, and as a result of the application submission or the receipt of the insurance score from the consumer reporting agency, is declined coverage either by the Company or producer-agent. The Company also does not track declinations by company or by applicant. Further, the Company has not instructed producers to retain information supporting declined applications, including declination notices provided to applicants, and has not monitored producers for proper declination practices. Finally, testing noted that the Company's information systems do not consistently classify declinations, nor distinguish declinations from submitted applications later withdrawn by the applicant, or other policy transactions, such as company-initiated cancellations, non-renewals, or insured-requested cancellations.

Recommendations: The Division strongly recommends that the Company obtain from the producers or a third party vendor, a quarterly listing of homeowners' applicants receiving written declination notices. The quarterly listing should be used to complete the required periodic audits of producers noted below.

Required Actions: The Company shall require that producers track all declinations by company and applicant, and retain copies of declination notices provided to all applicants, along with supporting documentation, for a five-year period. Based upon the Company's current underwriting guidelines, the Division understands that such declinations would generally be a result of an unacceptable insurance score. The Company shall complete periodic audits of producers for compliance with declination requirements including disclosures related to denials based on insurance score. Also, the Company shall make the necessary systems changes to classify declinations properly and to distinguish declinations from submitted applications later withdrawn by the applicant, or other policy transactions, such as company-initiated cancellations, non-renewals, or insured-requested cancellations. Finally, the Company's internal audit department shall complete an independent assessment of the effectiveness of these new procedures by December 31, 2011, and report the results of the audit to the Division.

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

M.G.L. c. 175, §§ 22C, 99, 113A, 113F, 187C, 193P and 193R; M.G.L. c. 152, §§ 55A and 65B; 211 CMR 97.04 and 97.06.

Objective: This Standard addresses notices to policyholders for cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. Declination notices are tested in Standard VI-7.

M.G.L. c. 175, § 22C states that automobile physical damage, personal injury protection or bodily injury coverage is only cancelable due to non-payment, fraud, driver license suspension or failure to comply with renewal requirements after 30 days notice. M.G.L. c. 175, § 99 allows homeowners company cancellations with five days notice for any reason, 20 days notice to the mortgagee for any reason and 10 days notice for non-payment of premium. The specific reason must be stated. Pursuant to M.G.L. c. 175, § 113A, no cancellation of the policy shall be valid unless written notice of the specific reason or reasons for such cancellation is given at least 20 days prior to the effective date thereof, which date shall be set forth in the notice. M.G.L. c. 175, § 113F states that any Company which does not intend to issue, extend or renew a motor vehicle liability policy shall give written notice to the insured (or agent in certain circumstances) of its intent 45 days prior to the termination effective date. Such notice must also be sent to the Registry of Motor Vehicles. Every insurance agent or broker receiving such a notice from a company shall, within 15 days of its receipt, send a copy of such notice to the insured, unless another insurer has issued a motor vehicle policy covering that insured's vehicles. Pursuant to M.G.L. c. 175, § 187C, any Company shall effect cancellation by serving written notice thereof as provided by the policy, and by paying the full return premium due. Pursuant to M.G.L. c. 175, § 193P, insurers must give 45 days' written notice to an insured with reasons stated to non-renew homeowners' fire coverage. If agents provide the notices to insureds, the agents must notify an insured within 15 days of receipt. Pursuant to M.G.L. c. 175, § 193R, group rating is allowed, but companies must offer no higher than the same rate in the individual market, and cannot cancel anyone in the group except for fraud or non-payment. 211 CMR 97.04 and 97.06 provide guidelines for the issuance of notices of cancellation and non-renewal of motor vehicle policies.

M.G.L. c. 152, § 65B requires that any insurer canceling a workers' compensation policy shall give notice in writing to the rating organization and the insured of its desire to cancel. Such cancellation shall be effective unless the employer, within ten days after the receipt of such notice, files an objection with the Division. M.G.L. c. 152, § 55A allows mid-term notice of cancellation of a workers' compensation policy only if based on nonpayment of premium; fraud or material misrepresentation affecting the policy or insured; or a substantial increase in the risk hazard.

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

- Company policy requires written notice of company-initiated cancellations to policyholders in accordance with statutory requirements. The Company's policy is to give written notice to private passenger automobile policyholders and the specific reason for the cancellation at least 20 days prior to the cancellation effective date. The Company's policy is to give written notice to all homeowners policyholders and the specific reason for the cancellation at least five days prior to the cancellation effective date and 10 days prior for non-payment of premium. Written notice for company-initiated cancellations for other lines of business is generally provided to policyholders at least 10 days prior to the effective date.
- The Company's practice is to give the company-initiated cancellation notice directly to the policyholder for all lines of business except commercial automobile and commercial

property/liability, whereby the Company provides such cancellation notices to the producer, who is responsible for communicating the pending action and the reason for it to the policyholder.

- Non-renewal notices for automobile and homeowners policies are provided to producers approximately 45 days prior to the non-renewal effective date. The notices are to state the specific reason for non-renewal, and the producers are to communicate the pending action and the specific reason for it to the policyholders within 15 days of receipt.
- Non-renewal notices for all other lines of business except workers' compensation, whereby the Company provides such non-renewal notices directly to the policyholder, are given to the producers approximately 45 days prior to the policy renewal date. Producers are then responsible to communicate the pending action and the reason for it to the policyholders.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected four private passenger automobile, one commercial automobile, four homeowners, one commercial property/liability, and one workers' compensation company-initiated cancellation transaction for testing. RNA also selected four private passenger automobile, one commercial automobile, four homeowners, one commercial property/liability, and one workers' compensation non-renewal transaction for testing. All transactions were evaluated for compliance with statutory notice requirements.

Transaction Testing Results:

Findings: For one homeowners company-initiated cancellation, the coverage was cancelled due to the insured operating a business from his garage. The notice to the insured stated the reason as "underwriting reasons" and did not disclose the specific reason as required by M.G.L. c. 175, § 99.

Observations: Based upon testing and review of the information available, except as noted above, company-initiated cancellation and non-renewal notices, appeared to be timely provided with the specific reason for the action properly disclosed. However, the Company does not monitor its producers' statutory responsibility to provide timely delivery of non-renewal notices to policyholders. For example, RNA noted a complaint where a Company notice of non-renewal was timely provided to the producer-agent, but there was no evidence that the producer-agent gave timely notice of the non-renewal to the insured. Finally, our testing noted that the Company's information systems do not consistently classify company-initiated cancellations and non-renewals nor distinguish them from other policy transactions, such as rewritten policies or insured-requested cancellations.

Recommendations: The Company should issue a bulletin reminding its producers to timely deliver non-renewal or replacement notices to policyholders. Also, the Company should make the necessary systems changes to classify company-initiated cancellations and non-renewals properly and to distinguish them from other policy transactions, such as rewritten policies or insured-requested cancellations.

Required Actions: The Company shall ensure that all company cancellation notices to applicants provide a specific reason for the Company's decisions as required by M.G.L. c. 175, § 99. Finally, the Company's internal audit department shall complete an independent assessment of Company practices and statutory requirements by December 31, 2011, and report the results of the audit to the Division.

Subsequent Actions: The Company states that it has begun making changes to its information systems to ensure that all company-cancellation notices provide the specific reason for the action.

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

M.G.L. c. 175, §§ 22C and 187D.

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

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

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, the legal department must approve rescissions, which are given only for significant material misrepresentations or fraud. Generally, the Company would cancel coverage mid-term in such cases.

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 inquired about any rescissions during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, policies and procedures for rescissions appear reasonable. The Company states that no rescissions were processed during the examination period.

Recommendations: None.

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

M.G.L. c. 175E, §§ 4 and 7; M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175A, §§ 5, 6 and 9; M.G.L. c. 175, §§ 113B, 111H and 193R; M.G.L. c. 152, § 53A; 211 CMR 56.04, 78.00, 91.00, 110.00, 113.00, 115.00, 131.00 and 134.00; Division Bulletin 2008-13.

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

Pursuant to M.G.L. c. 175E, § 4, private passenger automobile rates shall not be excessive, inadequate or discriminatory, and shall be discounted 25% for insureds age 65 or older. For both private passenger and commercial automobile policies, M.G.L. c. 175E, § 7 requires every insurer or rating organization authorized to file on behalf of such insurer, to file with the Commissioner every manual of its classifications, rules and rates, rating plans and modifications of any of the foregoing, not less than 45 days before the effective date thereof. Pursuant to M.G.L. c. 174A, § 5, rates for fire, marine and inland marine coverage shall be based on experience and not be unfairly discriminatory. M.G.L. c. 174A, § 6 states insurers shall file rates with the Commissioner 15 days before the effective date. M.G.L. c. 174A, § 9 and M.G.L. c. 175A, § 9 state members or rating organizations must use their filed rates, or must file separate rates. M.G.L. c. 175A, § 5 states rates for commercial insurance shall be based on experience and shall not be unfairly discriminatory. M.G.L. c. 175A, § 6 states insurers and rating organizations must file certain casualty insurance rates 15 days prior to their effective date. M.G.L. c. 175, § 111H states insurers shall cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. M.G.L. c. 175, § 113B mandates various discounts and surcharges for automobile policies. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 56.04 requires premium discounts for election of optional repair shop endorsement plans. Pursuant to 211 CMR 78.00, private passenger and commercial auto rate filings and hearing requirements are outlined. 211 CMR 91.00 prescribes requirements for the filing of rates with the Commissioner at least 45 days prior to their effective date. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing. 211 CMR 134.00 requires each driver to receive a step rating according to the Safe Driver Insurance Plan, which requires corresponding discounts and surcharges. Division Bulletin 2008-13 clarifies the meaning of "high-theft vehicles" and types of anti-theft devices.

For workers' compensation policies, M.G.L. c. 152, § 53A specifies a rate filing process and statistical reporting requirements using experience rating credits and payroll caps to ensure equitable distribution of premium based on wage differentials. Further, rates and producer commissions for business ceded to the Commonwealth reinsurance pool are determined by the Division. 211 CMR 110.00, 211 CMR 113.00 and 211 CMR 115.00 provide guidance on workers' compensation rate filing procedures, premium credit filings and the conduct of rate hearings.

Controls Assessment: Refer to Standard VI-1.

Controls Reliance: Refer to Standard VI-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and reviewed other rating information, including evidence of user testing of rate changes. In conjunction with new and renewal business testing, RNA selected 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation policies issued or renewed during the examination period, to test rate classifications and premiums charged. RNA verified that each policy's credits and deviations were consistently applied on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company consistently applies credits and deviations on a non-discriminatory basis in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

M.G.L. c. 175A, § 5; M.G.L. c. 152, § 53A; 211 CMR 110.00 and 113.00.

Objective: This Standard addresses whether schedule rating or individual risk premium modification plans are based on objective criteria and appropriately documented.

Pursuant to M.G.L. c. 175A, § 5, casualty, surety and certain commercial rates must be based, in part, on past and prospective loss experience, catastrophe hazards and include a reasonable margin for underwriting profits and contingencies. Risks may be grouped by classifications to establish rates and minimum premiums. Classification rates may be modified to produce rates for individual risks in accordance with rating plans which establish standards for measuring variations in hazards or expense provisions, or both. Such standards may measure any differences among risks that can be demonstrated to have a probable effect upon losses or expenses.

M.G.L. c. 152, § 53A specifies a rate filing process and statistical reporting requirements for workers compensation policies that uses experience rating credits and payroll caps to ensure equitable distribution of premium based on wage differentials. Further, rates and producer commissions for business ceded to the Commonwealth reinsurance pool are determined by the Division. 211 CMR 110.00 provides guidance on rate filing procedures and the conduct of hearings. 211 CMR 113.00 requires premium credits to be filed with the Division by the WCRIB.

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

- The Company has written policies and procedures for determining schedule rating and individual risk premium modification plans.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete, including use of all Company required forms and instructions.
- Underwriting personnel are required to approve schedule rating and individual risk premium modification plans, and ensure that such decisions are documented in the underwriting files.
- The DIA conducts periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The WCRIB has not audited the Company's worker's compensation premium statistical reporting since 1998.

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

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

underwriting process. and reviewed the DIA's most recent audit report. In conjunction with new and renewal business testing, RNA selected four commercial property/liability and five workers' compensation policies issued or renewed during the examination period, to test that schedule rating and individual risk premium modification plans are objective and documented.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's schedule rating and individual risk premium modification plans are objective and documented in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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.

M.G.L. c. 152, § 53A; 211 CMR 110.00.

Objective: This Standard addresses the use of loss costs and expense multipliers filed with the Division.

M.G.L. c. 152, § 53A specifies a rate filing process and statistical reporting requirements for workers compensation policies that uses experience rating credits and payroll caps to ensure equitable distribution of premium based on wage differentials. Further, the Division determines rates and producer commissions for business ceded to the Commonwealth reinsurance pool. 211 CMR 110.00 provides guidance on rate filing procedures and the conduct of hearings.

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

- The Company has written policies and procedures for the use of loss costs and expense multipliers.
- The WCRIB approves the use of loss costs and expense multipliers, and such deviations are filed with the Division.
- The DIA conducts periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The WCRIB has not audited the Company's worker's compensation premium statistical reporting since 1998.

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 process and reviewed the DIA's most recent audit report. RNA selected five workers' compensation policies issued or renewed during the examination period, to test the use of loss costs and expense multipliers as filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to properly use loss costs and expense multipliers as filed with the Division.

Recommendations: None.

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

Objective: This Standard addresses the performance of premium audits to verify proper rating factors.

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

- The Company has written policies and procedures for conducting premium audits to verify rate factors.
- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of the general rating methodology, in accordance with company policies and procedures.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating process. RNA selected five commercial automobile, four commercial property/liability and five workers' compensation policies issued or renewed during the examination period, to look for evidence that the Company conducted premium audits to verify rate factors, when applicable.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to properly conduct premium audits and verify rate factors.

Recommendations: None.

Standard VI-14. Verification of experience modification factors.

M.G.L. c. 152, § 53A; 211 CMR 110.00.

Objective: This Standard addresses the use of experience modification factors.

M.G.L. c. 152, § 53A specifies a rate filing process and statistical reporting requirements for workers'

compensation policies that uses experience rating credits and payroll caps to ensure equitable distribution of premium based on wage differentials. Further, the Division determines rates and producer commissions for business ceded to the Commonwealth reinsurance pool. 211 CMR 110.00 provides guidance on rate filing procedures and the conduct of hearings.

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

- The Company has written policies and procedures for verifying experience modification factors.
- The WCRIB approves experience modification factors, and such deviations are filed with the Division.
- The DIA conducts periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The WCRIB has not audited the Company's worker's compensation premium statistical reporting since 1998.

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 process and reviewed the DIA's most recent audit report. RNA selected five workers' compensation policies issued or renewed during the examination period to test for the use of experience modification factors as filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company generally appears to properly use experience modification factors as filed with the Division.

Recommendations: None.

Standard VI-15. Verification of loss reporting.

Objective: This Standard addresses the maintenance and verification of accurate loss histories.

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

- The Company has written policies and procedures for the maintenance and verification of accurate loss histories.
- The DIA conducts periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The WCRIB has not audited the Company's worker's compensation premium statistical reporting since 1998.

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 process and reviewed the DIA's most recent audit report. RNA selected five workers' compensation policies issued or renewed during the examination period to test maintenance and verification of accurate loss histories.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to maintain and verify accurate loss histories.

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination because the Company is not subject to NCCI data calls.

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

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

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

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

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 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation 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 evaluated certain 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.

Recommendations: None.

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

See Standard VI-13 for premium audits and Standard I-1 for audits by external and internal auditors.

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).

M.G.L. c. 175, §§ 2B, 22A, 99, 99A, 99B, 111H, 113A and 192; M.G.L. c. 152, § 53A; 211 CMR 113.00, 115.00 and 131.00.

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

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

Pursuant to M.G.L. c. 175, § 99, homeowners' policy forms must conform to the standards for policy language set forth in that section and, according to M.G.L. c. 175, § 99A, fire policies must disclose nuclear risk exclusions. M.G.L. c. 175, § 99B requires that condominium and tenant policies be filed with the Division for approval prior to use. M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage be subject to rules and regulations set forth by the Commissioner, and 211 CMR 131.00 requires that forms be filed with and approved by the Division for homeowners' lead liability coverage.

Pursuant to M.G.L. c. 175, §§ 22A and 113A, commercial automobile policy forms must be filed with the Division for approval prior to use. M.G.L. c. 152, § 53A requires that workers' compensation policy forms be filed with the Division. 211 CMR 113.00 notes minimum requirements for workers' compensation deductibles, and 211 CMR 115.00 includes limitations on workers' compensation deductibles.

Controls Assessment: See Standard VI-5.

Controls Reliance: See Standard VI-5.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation policies issued or renewed during the examination period, to test for the use of policy forms and approved endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 113S; 211 CMR 94.00.

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

M.G.L. c. 175, § 113S requires that used cars, and those purchased by new customers, be inspected before fire and theft (comprehensive), collision or limited collision coverage can be issued. 211 CMR 94.00 requires that pre-insurance inspections of vehicles must verify the VIN.

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 30 private passenger automobile and five commercial automobile policies issued during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 176D, §§ 3(4) and 3A.

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

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

Controls Assessment: The following 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 underwriting department to determine whether they should be accepted or rejected.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation 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.

M.G.L. c. 175, § 193R.

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

not offer mass marketing plans.

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

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

Standard VI-24. Cancellation/non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.

See Standard VI-8 for testing of this standard.

Standard VI-25. All policies are correctly coded.

Objective: This Standard addresses the accuracy of statistical coding.

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 producer 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, ISO or the WCRIB.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.
- The DIA conducts periodic audits of the Company's quarterly assessment calculations for determining payments to the Workers Compensation Trust Fund. In those audits, the DIA tests compliance with some policy premium factors and determinants. The WCRIB has not audited the Company's worker's compensation premium statistical reporting since 1998.

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 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability, and five workers' compensation policies issued or renewed during the examination period, to test data coding for selected policy determinants. RNA also reviewed recently issued CAR audit reports on the Company's compliance with CAR statistical coding requirements for key policy determinants for business ceded to CAR. Finally, RNA reviewed the most recently completed DIA audit of the Company's compliance with workers' compensation-related requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded. The CAR and DIA audit reports indicated the Company generally codes policies accurately.

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.

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- Producers are responsible for completing applications for new business and obtaining information needed to properly underwrite and rate the policies. Properly completed applications are to include applicant and producer signatures.
- Underwriting personnel review the applications submitted by producers for completeness and internal consistency.
- Certain risks are referred to the underwriting department to determine whether they should be accepted or rejected.
- The Company recently began conducting periodic agency audits to monitor compliance with recordkeeping requirements such as signed applications and underwriting support.

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 50 private passenger automobile, five commercial automobile, 15 homeowners, four commercial property/liability and five workers' compensation policies issued or renewed during the examination period, to test whether the applications were properly completed and whether policy files adequately support the Company's decisions. RNA also evaluated certain complaints to ensure that underwriting decisions were properly supported.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, applications were generally properly completed, and policy files adequately supported the Company's decisions.

Recommendations: The Company should ensure that its field audits include testing for maintenance of certain underwriting information that is retained by the producers.

VII. CLAIMS

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

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

M.G.L. c. 176D, § 3(9)(b); M.G.L. c. 152, § 7.

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

Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claim settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

M.G.L. c. 152, § 7 requires the insurer to either commence payment of weekly benefits within 14 days of an insurer's receipt of an employer's first report of injury or an initial written claim for weekly benefits, or to notify the DIA, the employer, and, the employee of its refusal to commence payment. The notice shall specify the grounds and factual basis for the refusal to commence payment and be delivered by certified mail.

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

- Written policies and procedures govern the claims handling process.
- Written claim forms are received via fax, mail, electronically or from agents. Company policy requires that a claim file be established within two business days after claim notification is received. Once a claim file is established, Company policy requires contact with the claimant within one business day.
- All claim files are maintained on a mainframe-based claims management system.
- Company policy is to investigate all claims in a timely manner in accordance with its policies, procedures, and regulatory requirements.
- Company policy is to respond to all physical damage claims within two business days from the receipt of a loss report as required by CAR standards. Appraisers are dispatched to adjudicate all physical damage claims.
- Company policy is to complete physical damage appraisals within five days from the date of the appraisal assignment, as required by CAR standards.
- Company policy is to contact all injured persons, or their legal representatives, within one business day of claim receipt.
- The Company's workers compensation claims processing is outsourced to an unaffiliated TPA. The TPA contract contains performance standards requiring timely and accurate claims processing and compliance with all applicable laws and regulations. The Company monitors monthly activity reports from the TPA to ensure compliance with Company policies and procedures.
- Company policy is to accept or reject all workers' compensation claims within 14 days of the claim filing, in compliance with DIA regulatory requirements.
- Claims management access the claims system to monitor open claims.
- Claims management perform periodic quality assurance claim reviews to evaluate compliance with Company claims policies, and use exception reports to measure operational effectiveness and claim processing time.

- The Company conducts random surveys of claimants to measure customer satisfaction with claims handling.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. RNA verified the date each selected claim was reported to the Company, and noted whether its initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was reported and investigated 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.**

M.G.L. c. 176D, § 3(9)(c).

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

Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of claims.

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 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. RNA verified the date each selected claim was reported to the Company, and noted whether its investigation was conducted in a reasonable and timely manner.

Transaction Testing Results:

Findings: None.

Observations: 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.

M.G.L. c. 176D, § 3(9)(f); M.G.L. c. 175, §§ 28, 112, 113O and 191A; 211 CMR 123.00; M.G. L. c. 152, § 7.

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

Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claims settlement practices include failing to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear. In addition, if an insurer makes a practice of unduly engaging in litigation or of unreasonably and unfairly delaying the adjustment or payment of legally valid claims, M.G.L. c. 175, § 28 authorizes the Commissioner to make a special report of findings to the General Court.

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

M.G.L. c. 175, § 112 states that the liability of any company under a motor vehicle liability policy, or under any other policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage. M.G.L. c. 175, § 191A requires insureds to give timely notice of a property damage loss to the company or its agent. Further, insureds must also report thefts to the police. The company must pay such claims within 60 days after a proof of loss is filed. The statute also sets forth a process for selecting a disinterested appraiser if the insured and the company fail to agree on the amount of loss.

M.G.L. c. 152, § 7 requires the insurer to either commence payment of weekly benefits within 14 days of its receipt of an employer's first report of injury or an initial written claim for weekly benefits, or to notify the DIA, the employer, and the employee of its refusal to commence payment. The notice shall specify the grounds and factual basis for the refusal to commence payment, and must be delivered by certified mail.

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 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. RNA verified the date each selected claim was reported to the Company, and noted whether its investigation was conducted and resolved in a reasonable and timely manner.

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, with timely claim resolutions. Based upon testing, it appears that the Company's processes for timely investigating and 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.

M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e); M.G. L. c. 152, § 7.

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

Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to act reasonably promptly upon communications with respect to claims arising under insurance policies. M.G.L. c. 176D, § 3(9)(e) considers failure to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed an unfair trade practice.

M.G.L. c. 152, § 7 requires the insurer to either commence payment of weekly benefits within 14 days of its receipt of an employer's first report of injury or an initial written claim for weekly benefits, or to notify the DIA, the employer, and the employee of its refusal to commence payment. The notice shall specify the grounds and factual basis for the refusal to commence payment, and must be delivered by certified mail.

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 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. RNA verified the date each selected claim was reported to the Company, and noted whether the Company timely responded to claim correspondence.

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, with timely claim investigations. Based upon testing, it appears that the Company's processes for providing timely responses 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.

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 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was adequately documented according to the Company's policies and procedures. 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.

M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), M.G.L. c. 175, §§ 22B, 22I, 24D, 24E, 24F, 96, 97, 97A, 100, 102, 111F, 112, 112C, 113J, 113O and 193K; M.G.L. c. 139, § 3B; 211 CMR 75.00 and 133.00; 212 CMR 2.00; Division Bulletin 2008-12; M.G. L. c. 152, §§ 7, 8, 29, 31, 33, 34, 34A, 35, 36, 36A, and 50.

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

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear an unfair trade practice. M.G.L. c. 175, § 22B prohibits waiver provisions in insurance contracts except as expressly provided. M.G.L. c. 175, § 22I allows companies to

retain unpaid premium due from claim settlements. Claim payments must also comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, §§ 111F and 113J. M.G.L. c. 175, § 24E requires an insurer to exchange information with the Commonwealth not less than 10 business days prior to making payment to a claimant who has received public assistance benefits. M.G.L. c. 175, § 24F requires insurers to communicate with the Commonwealth regarding claimants with unpaid taxes. In addition, M.G.L. c. 175, § 112C requires companies to reveal to an injured party making a claim against an insured, the amount of the limits of said insureds liability coverage upon receiving a request in writing for such information. M.G.L. c. 175, § 96 states when a building is destroyed by fire, the insurer's liability is limited to the actual cash value of the insured property. M.G.L. c. 175, § 97 states companies must pay fire losses to mortgagees of property upon satisfactory proof of rights and title in accordance with the insurance policy. M.G.L. c. 175, § 97A states that for any fire loss where damages exceed $5,000, the claimant must first submit to the insurer a certificate of municipal liens from the city or municipality, and the insurer shall pay the amount of the lien prior to paying the insured owner, mortgagee, or similar assignee. M.G.L. c. 175, § 100 sets forth standards for selecting a referee when parties to a claim fail to agree on the amount of loss. M.G.L. c. 175, § 102 states insureds under a fire policy are not precluded from recovery by failing to render a sworn statement, if they do so upon the Company's appropriate written request. M.G.L. c. 139, § 3B states companies may not pay claims in excess of $1,000 on dangerous buildings or structures without first giving 10 days written notice to the building inspector or commissioner appointed pursuant to the state building code, to the fire department and to the Board of Health for the city or town where the property is located. M.G.L. c. 175, § 112 states that liability of any company under any policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage. Division Bulletin 2008-12 establishes guidelines for the coordination of benefits for personal injury protection and health insurers.

M.G.L. c. 175, § 113O prohibits payments by an insurer for theft coverage until the insured has received notice from the appropriate police authority that a statement has been properly filed. Additionally, companies are required to report the theft or misappropriation of a motor vehicle to a central organization engaged in motor vehicle loss prevention. M.G.L. c. 175, § 193K prohibits discrimination on auto claims based on race or religion. 211 CMR 75.00 designates the National Insurance Crime Bureau as the central organization to be used for this purpose.

211 CMR 133.00 sets forth uniform standards for repair of damaged motor vehicles, but applies only when an insurer pays the costs of repairs. The regulation addresses how damage and repair costs are determined, requires that like kind repair parts be used, and sets forth methods for determining vehicle values. It further allows vehicles deemed a total loss to be repaired subject to certain requirements and limits. Lastly, the regulation requires an insurer to have licensed appraisers conduct "intensified" appraisals of at least 25% of all damaged vehicles for which the damage is less than $1,000, and 75% of all damaged vehicles for which the appraised cost of repair is more than $4,000 for collision, limited collision, and comprehensive claims. The "intensified" appraisal is to determine if the repairs were made in accordance with the initial appraisal and any supplemental appraisals. 212 CMR 2.00 sets forth uniform procedures for conducting motor vehicle damage appraisals.

M.G.L. c. 152, § 7 requires the insurer to either commence payment of weekly benefits within 14 days of an insurer's receipt of an employer's first report of injury or an initial written claim for weekly benefits, or to notify the DIA, the employer, and the employee of its refusal to commence payment. The notice shall specify the grounds and factual basis for the refusal to commence payment, and must be delivered by certified mail.

M.G.L. c. 152, § 8 allows an insurer to terminate or modify payments without penalty at any time within

180 days of commencement of disability, if such change is based on the actual income of the employee or if it gives the employee and the DIA at least seven days written notice of its intent to stop or modify payments and to contest any claim filed. The notice shall specify the grounds and factual basis for stopping or modifying payment of benefits and the insurer's intention to contest.

Pursuant to M.G.L. c. 152, § 29, no compensation shall be paid for any injury which does not incapacitate the employee from earning full wages for a period of five or more calendar days. If incapacity extends for a period of 21 days or more, compensation shall be paid from the date of onset of incapacity. If incapacity extends for a period of at least five but less than 21 days, compensation shall be paid from the sixth day of incapacity. Generally, no compensation shall be paid for any period for which any wages were earned.

Pursuant to M.G.L. c. 152, § 31, if death results from the injury, the insurer shall pay compensation to dependents of the employee who were wholly dependent upon his or her earnings for support. M.G.L. c. 152, § 33 requires the insurer to pay the reasonable expenses of burial not exceeding $4,000.

Pursuant to M.G.L. c. 152, § 34, while incapacity is total, during each week of incapacity the insurer shall pay the injured employee compensation equal to 60 percent of his or her average weekly wage before the injury, subject to defined limits. The total number of weeks of compensation due the employee shall not exceed 156 weeks. Pursuant to M.G.L. c. 152, § 34A, when the injury is both permanent and total, the insurer shall pay to the injured employee, following payment of compensation provided in M.G.L. c. 152, §§ 34 and 35, a weekly compensation equal to two-thirds of the average weekly wage before the injury, subject to defined limits.

Pursuant to M.G.L. c. 152, § 35, when injury is partial, during each week of incapacity the insurer shall pay the injured employee a weekly compensation equal to 60 percent of the difference between the average weekly wage before the injury, and the weekly wage he or she is capable of earning after the injury, but not more than 75 percent of what the employee would receive if eligible for total incapacity benefits. An insurer may reduce the amount paid to an employee to the amount at which the employee's combined weekly earnings and benefits are equal to two times the average weekly wage in the Commonwealth at the time of such reduction.

Pursuant to M.G.L. c. 152, § 36, additional sums are designated for specific injuries, provided that the employee has not died from any cause within 30 days of such injury. M.G.L. c. 152, § 36A states that where any loss is a result of an injury involving brain damage, a lump sum payment resulting from brain damage shall not exceed an amount equal to the average weekly wage in the Commonwealth at the date of injury, multiplied by 105. Payments shall not be made where death occurs within 45 days of the injury.

Pursuant to M.G.L. c. 152, § 50, if payments are not made within 60 days of being claimed by an employee, dependent or other party, interest at the rate of 10% per annum of all sums due from the date of the receipt of the notice of the claim by the DIA, to the date of payment, shall be required. Whenever such sums include weekly payments, interest shall be computed on each unpaid weekly payment.

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 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. Further, as part of complaint testing, RNA evaluated claims-related complaints to

determine whether the related claims appeared to be properly handled.
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 processes for handling claims are functioning in accordance with its policies, procedures and statutory requirements. Further, upon evaluation of claims-related complaints, such claims generally appeared to be properly handled. In one isolated instance for a tested bodily injury auto claim, the Department of Revenue website was not reviewed by the claims examiner for possible intercept or reporting of the claim payment. One of the attorneys involved in the claim reported the intercept obligation, such that the appropriate payment was timely made to the Commonwealth as required by M.G.L. c. 175, § 24D.

Recommendations: The Company should ensure that all claims examiners are reminded about the Department of Revenue intercept requirements and documentation thereof, and provide any training considered necessary to ensure statutory compliance with these requirements.

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

M.G.L. c. 152, § 7.

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

M.G.L. c. 152, § 7 requires the use of specific DIA-developed forms for workers' compensation claims.

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 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. RNA reviewed the file for each selected claim and verified that claim forms were appropriate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-8. Claims 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.

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 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. RNA verified the date each selected claim was reported to the Company, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner. The Division's financial examiners and actuaries also tested reserving in conjunction with the ongoing financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n); M.G.L. c. 152, §§ 8, 29, 34, 34A, 35, 36A .

Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims.

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Pursuant to M.G.L. c. 176D, § 3(9)(h), unfair claim settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he or she was entitled to receive. M.G.L. c. 176D, § 3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim an unfair claim settlement practice.

M.G.L. c. 152, § 8 allows an insurer to terminate or modify payments at any time within 180 days of commencement of disability without penalty, if such change is based on the actual income of the employee, or if it gives the employee and the DIA at least seven days written notice of its intent to stop or modify payments and to contest any claim filed. The notice shall specify the grounds and factual basis for stopping or modifying payment of benefits, and the insurer's intention to contest.

Pursuant to M.G.L. c. 152, § 29, no compensation shall be paid for any injury which does not incapacitate the employee from earning full wages for a period of five or more calendar days. If incapacity extends for a period of 21 days or more, compensation shall be paid from the date of onset of incapacity. If incapacity extends for a period of at least five but less than 21 days, compensation shall be paid from the sixth day of incapacity. Generally, no compensation shall be paid for any period for which any wages were earned.

Pursuant to M.G.L. c. 152, § 34, while incapacity is total, during each week of incapacity the insurer shall pay the injured employee compensation equal to 60 percent of his or her average weekly wage before the injury, but not more than the maximum weekly compensation rate, unless the average weekly wage of the employee is less than the minimum weekly compensation rate, in which case said weekly compensation shall be equal to his average weekly wage. The total number of weeks of compensation due the employee shall not exceed 156 weeks. Pursuant to M.G.L. c. 152, § 34A, when the injury is both permanent and total, the insurer shall pay to the injured employee, following payment of compensation provided in §§ 34 and 35, a weekly compensation equal to two-thirds of the average weekly wage before the injury, but not more than the maximum weekly compensation rate nor less than the minimum weekly compensation rate.

Pursuant to M.G.L. c. 152, § 35, when injury is partial, during each week of incapacity the insurer shall pay the injured employee a weekly compensation equal to 60 percent of the difference between the average weekly wage before the injury and the weekly wage he or she is capable of earning after the injury, but not more than 75 percent of what the employee would receive if eligible for total incapacity benefits. An insurer may reduce the amount paid to an employee to the amount at which the employee's combined weekly earnings and benefits are equal to two times the average weekly wage in the Commonwealth at the time of such reduction.

M.G.L. c. 152, § 36A states that where any loss is a result of an injury involving brain damage, a lump sum payment resulting from brain damage shall not exceed an amount equal to the average weekly wage in the Commonwealth at the date of injury, multiplied by 105. Payments shall not be made where death occurs within 45 days of the injury.

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 16 automobile, property/liability or workers' compensation claims denied or closed without payment claims during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether the Company handled each claim timely and properly before closing or denying it.

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.

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 28 automobile, property/liability, or workers' compensation claims paid during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified that claim payment checks were appropriately issued.

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, with adequate claim payment documentation. Based upon testing, it appears that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

Pursuant to M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), unfair claim settlement practices include (a) compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered in actions brought by such insureds, and (b) attempting to settle a claim for less than the amount to which a reasonable person would have believed he or she was entitled by reference to written or printed advertising material accompanying or made part of an application. Moreover, if an insurer makes a practice of unduly engaging in litigation, or of unreasonably and unfairly delaying the adjustment or payment of legally valid claims, M.G. L. c. 175, § 28 authorizes the Commissioner to make a special report of such findings to the General Court.

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 43 claims paid or that

remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. When applicable, RNA verified the date each selected claim was reported to the Company, reviewed correspondence and investigative reports, and noted whether the Company handled the claims timely and properly.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims involving litigation appeared complete and supported the Company's conclusions. Based upon testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to initiate litigation.

Recommendations: None.

Standard VII-12. The 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.

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 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. RNA reviewed the file for each selected claim, and noted whether reservations of rights or excess loss letters were warranted, and reviewed model correspondence.

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 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.

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 43 claims paid or that remained open during the examination period; and 16 claims that were closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The claims were selected from the automobile, property/liability, or workers' compensation lines of business. RNA reviewed each selected claim file, and noted whether subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that subrogation recoveries for all applicable tested claims were timely and accurate 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 making subrogation recoveries to insureds are functioning in accordance with its policies and procedures.

Recommendations: None.

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

M.G.L. c. 175A, § 15(a); 211 CMR 15.00 and 115.00.

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

Pursuant to M.G.L. c. 175A, § 15(a), insurers must record and report their loss and countrywide expense experience in accordance with the statistical plan promulgated by the Commissioner, and the rating system on file with the Commissioner. The Commissioner may designate a rating agency or agencies to assist in the compilation of such data. In accordance with 211 CMR 15.00, the Commissioner established and fixed various statistical plans to be used in relation to homeowners insurance and related coverages, in accordance with M.G.L. c. 175A, § 15(a). CMR 115.00 requires insurers to report workers' compensation losses and expenses for statistical purposes.

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. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company reports homeowners, commercial property/liability, and workers' compensation loss data to ISO in a format required by ISO.
- The Company reports workers' compensation loss data to the WCRIB in the format required by the WCRIB.

- Detailed claim data is reported quarterly to CAR, AIB, ISO and WCRIB. The claim data includes loss experience by line of business, type of loss, dollar amounts, claim counts, accident dates, territory, etc.
- Claims management personnel reconcile the underlying claim data for completeness and accuracy. Exceptions reports are generated to ensure the loss data is properly reported.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA also reviewed recently issued CAR audit reports to evaluate the Company's compliance with CAR statistical coding requirements.

Transaction Testing Results:

Findings: None.

Observations: The Company generally appears to have processes for timely and accurately reporting loss statistical data to rating bureaus in accordance with its policies and procedures, as well as statutory and regulatory requirements. The CAR audit reports indicated the Company scored well and compared favorably to the Massachusetts industry in most tested areas.

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 2009 *NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has made recommendations or the Division has set forth required actions to address various concerns in the areas of Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Rudmose & Noller Advisors, LLC, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of Insurance of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination ("comprehensive examination") of the Company.

The undersigned's participation in this comprehensive examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the National Association of Insurance Commissioners and the Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the comprehensive examination report. In addition to the undersigned, Dorothy K. Raymond of the Division participated in this examination.

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

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