



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

*Report on the Comprehensive Market Conduct Examination of  
The Paul Revere Variable Annuity Insurance Company  
Worcester, Massachusetts  
For the Period January 1, 2008 through December 31, 2008*

NAIC COMPANY CODE: **67601**

EMPLOYER ID NUMBER: **04-2381280**

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**COMMONWEALTH OF MASSACHUSETTS**  
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August 26, 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

**THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY**

at their home offices located at:

2211 Congress Street  
Portland, ME 04122

The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination of The Paul Revere Variable Annuity Insurance Company (“PRVAIC” or the “Company”) for the period January 1, 2008 to December 31, 2008. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete certain agreed upon procedures.

## EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2008 NAIC Market Regulation Handbook*, (“the Handbook”) the market conduct examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected federal laws and regulations. All procedures were performed under the management, control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division’s financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

The business areas from the Handbook that were reviewed under this examination were Company Operations/Management and Complaint Handling. The Handbook guidance related to Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims were not reviewed because PRVAIC did not offer or underwrite any new business during the examination period, and is operating only as a run-off entity. Moreover, 100% of the Company’s in-force business is reinsured by reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all policyholder service and claims functions related to the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate policyholder service and claims processing, as well as compliance with all applicable laws and regulations.

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

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

This report of the comprehensive market conduct examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of

the examination, tests conducted, findings and observations. 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. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division’s website at [www.mass.gov/doi](http://www.mass.gov/doi).

## **EXECUTIVE SUMMARY**

The comprehensive market conduct examination resulted in no recommendations or required actions. 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.

## **COMPANY BACKGROUND**

PRVAIC is an indirect subsidiary of Unum Group (“Unum”), a publicly-traded insurance holding company whose shares are listed on the New York Stock Exchange. Unum is headquartered in Chattanooga, TN. Unum’s insurance and non-insurance subsidiaries operate in the United States, the United Kingdom, and, to a limited extent, in certain other countries around the world. The principal operating subsidiaries in the United States are Unum Life Insurance Company of America, Provident Life and Accident Insurance Company, Paul Revere Life Insurance Company (“PRLIC”), and Colonial Life & Accident Insurance Company, and in the United Kingdom, Unum Limited. PRLIC is a Massachusetts-domiciled subsidiary of Unum and is PRVAIC’s direct parent. A 2008 comprehensive examination of PRLIC was also conducted by the Division and RNA, and a separate examination report has been issued for that examination. Unum is the largest provider of disability insurance products in the United States and the United Kingdom, and also provides a complementary portfolio of other insurance products including long-term care insurance, life insurance, employer and employee paid group benefits, and other related services.

PRVAIC does not market or underwrite any new business. As such, the Company operates as a run-off subsidiary of Unum. All of the Company’s 2008 direct written premium revenue is comprised of renewal ordinary life insurance and fixed annuity business, which is then 100% ceded to licensed Massachusetts reinsurers unaffiliated with the Company. Thus, from a financial perspective, the Company does not have any net retained business. PRLIC has \$110.1 million in assets and \$94.7 million in surplus as of December 31, 2008 and is 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.

<b>Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.</b>
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*Objective:* This Standard addresses the audit function and its responsibilities.

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The internal audit plan is annually approved by the audit committee of its board of directors ("Audit Committee"). Key business risks and mitigating controls are identified, and an annual audit plan is developed with high risk areas receiving the most attention.
- Unum has adopted a global compliance function which reports to Unum's Regulatory Compliance Committee ("RCC") quarterly. The members of the RCC are independent. Unum's vice-president functions as the chief compliance officer, who leads Unum's compliance efforts and reports to the RCC.
- The internal audit function reports to the Audit Committee, and provides internal audit reports to the Audit Committee and senior management. The reports include recommendations and management's responses to those recommendations, and the Audit Committee is updated throughout the year on the status of in-process audits. The internal audit department verifies that audit recommendations have been implemented by management.

*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 internal audit plans, internal audit reports, RCC meeting presentations and minutes, and discussed reported matters with management. Issues noted in such reports were further investigated and reviewed.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* The internal audit plans, internal audit reports and RCC meeting presentations and minutes reviewed by RNA provided detailed information on the audit plans, procedures performed, findings, actions taken and recommendations. Any issues appeared to be timely and fully addressed.

*Recommendations:* None.

<b>Standard I-2. The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.</b>
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No work performed. All required activity for this Standard is included in the scope of the recently completed statutory financial examination of the Company.

<b>Standard I-3. The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.</b>
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<b>18 U.S.C. § 1033; Division Bulletins 1998-11 and 2001-14.</b>
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Objective: This Standard addresses the effectiveness of the Company's antifraud plan.

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 key observations were noted in conjunction with the review of this Standard:

- Unum has adopted written anti-fraud procedures for all of its operating subsidiaries, which require management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud.
- Unum completes criminal, financial and post-secondary education background checks for prospective employees of its operating subsidiaries. Unum's policy is to not hire a "prohibited person" as defined above.

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 Company's policies and procedures to address anti-fraud initiatives and employee hiring due diligence.

Transaction Testing Results:

Findings: None.

Observations: RNA confirmed that the Company's anti-fraud policies, and procedures conducted through the SIU, take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud. RNA also confirmed that the Company completes criminal, financial and post-secondary background checks for new employees. Based upon RNA's review of the Company's policies and procedures, it appears that the Company has anti-fraud initiatives in



place that are reasonably calculated 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 recently completed 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 and Standard I-6:

- The Company has reinsured its individual life and fixed annuity business with unaffiliated reinsurers that are licensed in Massachusetts. The reinsurers have outsourced the processing of policyholder service transactions and claims processing for these products to third parties. The terms of these transactions are contained in administrative and reinsurance agreements which designate responsibilities and duties, restrictions, and general confidentiality and privacy requirements.
- The Company does not utilize independent agents, since it is no longer selling insurance and annuity contracts.

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, and reviewed the administrative and reinsurance agreements with regard to the Company's reinsured business.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company's contracts with entities assuming a business function on their 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.

Controls Assessment: See Standard I-5.

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 monitoring of third parties who perform Company functions.

Transaction Testing Results:

Findings: None.

Observations: The Company's reinsurers are responsible for oversight and monitoring of the third parties which process policyholder service transactions and claims. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.

Recommendations: None.

**Standard I-7. Records are adequate, accessible, consistent and orderly and comply with 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.

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 is concerned with whether the lines of business 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 is concerned with the Company's cooperation during the course of the examination conducted in accordance with M.G.L. c. 175, § 4.

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

*Controls Reliance:* Not applicable.

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

*Transaction Testing Results:*

*Findings:* None.

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

Recommendations: None.

**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.

**M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.**

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of consumers of life insurance.

M.G.L. c. 175I, §§ 1-22 and 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 conjunction with the review of this Standard and Standards I-11 through I-17:

- The Company has developed privacy policies and procedures to address statutory and regulatory privacy requirements.
- The Company provides an annual privacy notice to all customers.
- The Company shares personal information with business partners who perform a function on behalf of the Company. The Company does not share nonpublic personal financial information with non-affiliates, and thus no opt-out right is necessary for such information sharing.
- The Company has summarized its privacy policies on its website.
- Company policy is to disclose nonpublic personal information only as required or permitted by law to regulators and law enforcement agencies.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial and health information is located. Access is frequently and strictly monitored.

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

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

Transaction Testing Results:

Findings: None.

Observations: 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.

Recommendations: None.

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

**M.G.L. c. 175I, §§ 1-22; 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 nonpublic personal information relating to its customers, former customers and consumers that are not customers.**

**M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.**

Objective: This Standard addresses policies and procedures to ensure the privacy of nonpublic personal information.

M.G.L. c. 175I, §§ 1-22 and 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: It appears from RNA's review that the Company's policies and procedures adequately protect consumers' nonpublic personal information.

Recommendations: None.

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

**M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.**

*Objective:* This Standard addresses requirements to provide privacy notices.

M.G.L. c. 175I, §§ 1-22 and 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 reviewed the Company's policies and procedures for providing annual privacy notices to all policyholders.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* The Company appears to have policies and procedures in place to annually provide all policyholders with the required privacy notice.

*Recommendations:* None.

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

**M.G.L. c. 175I, §§ 1-22; 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.

M.G.L. c. 175I, §§ 1-22 and 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 non-affiliates 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 nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.**

**M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.**

Objective: This Standard is concerned with the Company's collection and use of nonpublic personal financial information.

M.G.L. c. 175I, §§ 1-22 and 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: It appears from RNA's review that the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses nonpublic personal financial information.

Recommendations: None.

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

**M.G.L. c. 175I, §§ 1-22; 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 the privacy of nonpublic personal health information.

M.G.L. c. 175I, §§ 1-22 and the 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 supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA’s review that the Company’s policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses nonpublic personal health information.

Recommendations: None.

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

**M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505; 16 CFR Part 313.**

Objective: This Standard is concerned with the Company’s information security efforts to ensure that nonpublic consumer information is protected.

M.G.L. c. 175I, §§ 1-22 and 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. Review of information technology access and authorization controls is also included in the scope of the recently completed statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<p><b>Standard I-18. The regulated entity files all certifications with the insurance department as required by statutes, rules, and regulations.</b></p>
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No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

## 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 complaint Standards:

- Written Company policies and procedures govern the complaint handling process.
- The Company considers any written or oral grievance received from the Division or a customer as a complaint.
- The Company logs all complaints received in its complaint register in a consistent format.
- The complaint register includes the date received, the date closed, the person making the complaint, the insured, the policy number, state of residence, the nature of the complaint and the complaint disposition.
- The Company's policy is to respond to Division complaints within 14 calendar days of receipt when possible, and in a timely manner once it receives and evaluates all required information.
- The Company provides a telephone number and address in its written responses to consumer inquiries, and on its web site.
- The Company monitors complaint handling activity through quarterly management reporting to senior management, and internal auditing of business units' complaint activity and trends.

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

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

*Transaction Testing Results:*

*Findings:* None.

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

Recommendations: None.

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

**M.G.L. c. 176D, § 3(10).**

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the only Massachusetts complaint file from the examination period, to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10). RNA noted the response date, and the adequacy of documentation supporting the resolution of the complaint. RNA also reviewed complaint trend reports prepared by management during the examination period, noting that activity is summarized and analyzed to identify root causes of complaints. In addition, RNA reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>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.</b>
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Objective: This Standard addresses whether the Company's response to the complaint fully addresses the issues raised, and whether policyholders 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 the only Massachusetts complaint file from the examination period, to evaluate the Company's actions related to complaint disposition.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard II-4. The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.</b>
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Objective: This Standard is concerned with 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 the only Massachusetts complaint file from the examination period, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company addressed the complaints tested within 14 days. It appears that the Company's processes for responding to complaints in a timely manner are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

## **SUMMARY**

Based upon the procedures performed in this comprehensive examination, RNA has reviewed and tested Company Operations/Management and Complaint Handling as set forth in the 2008 *NAIC Market Regulation Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has made no recommendations or required actions in this examination report.

## **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’s Market Conduct Section participated in this examination, and in the preparation of the report.

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

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