



**THE COMMONWEALTH OF MASSACHUSETTS**

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS  
REGULATION**

**Division of Insurance**

*Report on the Comprehensive Market Conduct Examination of*

*Pilgrim Insurance Company*

*Boston, Massachusetts*

*For the Year January 1, 2003 through December 31, 2003*

**NAIC COMPANY CODE: 21750**

**NAIC GROUP CODE: 0415**

**EMPLOYER'S ID NUMBER: 04-3002627**



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

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JULIANNE M. BOWLER  
COMMISSIONER OF INSURANCE

December 7, 2004

Honorable Julianne M. Bowler  
Secretary, Northeastern Zone, NAIC  
Commissioner of Insurance  
Division of Insurance  
Commonwealth of Massachusetts  
One South Station  
Boston, Massachusetts 02110-2208

Dear Commissioner Bowler:

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

**PILGRIM INSURANCE COMPANY**

at its home office located at:

695 Atlantic Avenue  
Boston, MA 02111

The following report thereon is respectfully submitted.

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## SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (“the Division”) conducted a comprehensive market conduct examination of Pilgrim Insurance Company (“the Company”) for the year January 1, 2003 to December 31, 2003. 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 *NAIC Market Conduct Examiner’s Handbook*, (“the Handbook”) the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. All procedures were performed under the management and control and general supervision of the market conduct examination staff of the Division. The following describes the procedures performed and the findings for the workplan steps thereon.

The basic business areas that were reviewed in under this examination were:

- 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 their business and to meet key business objectives, including complying with applicable laws, regulations and bulletins 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 VI A. of the Handbook.

## EXECUTIVE SUMMARY

This summary of the comprehensive market conduct examination of the Company is intended to provide a high-level overview of the report results. The body of the report provides details of the scope of the examination, tests conducted, findings and observations, recommendations 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 should be provided to the Division.

The following is a summary of all substantive issues found, along with related recommendations and, if applicable, subsequent Company actions made, as part of the comprehensive market conduct examination of the Company.

All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division’s website at [www.state.ma.us/doi](http://www.state.ma.us/doi).

## IV. PRODUCER LICENSING

### STANDARDS IV-1 AND IV-2 (PAGES 21 AND 22)

*Findings:* None.

*Observations:* Based on the results of our testing new and renewal business written, RNA noted that several of the Company’s appointed agents were not listed on the Division’s list of the Company’s appointed agents. A list of such agents was provided to the Division for their review to ensure that such agents were licensed at the time of sale. Based upon our testing, RNA noted no violations of M.G.L. c. 175, §§ 162I and 162S as all sales were produced by properly licensed agents. RNA also noted the Company does not perform criminal background checks or require E&O insurance coverage as part of its agent contracting and appointment procedures.

*Recommendations:* RNA recommends that the Company work with the Division to reconcile its agent licensing and appointment records with the Division’s records as of a date certain and modify its appointment procedures, as necessary, to ensure accurate and timely maintenance of its licensing and appointment records in accordance with M.G.L. c. 175, §§162I and 162S.

Additionally, RNA recommends that the Company begin conducting criminal background checks on producers prior to contracting with them to facilitate compliance with 18 U.S.C. § 1033 and Division of Insurance Bulletin 98-11. Additionally, the Company should consider requiring that its producers maintain E&O coverage to mitigate risks to the Company resulting from a producer’s actions.

#### **STANDARD IV-3 (PAGE 23)**

*Findings:* The results of our testing showed that the Company was not notifying the Division when agents are terminated. As a result of this examination, the Company has begun to notify the Division when agents are terminated. See also Standard IV-5 concerning failure to report cause of terminations when termination is “for cause.”

*Observations:* None.

*Recommendation:* RNA recommends that the Company work with the Division to reconcile its terminated agent records with the Division’s records as of a date certain and to continue to communicate to the Division a record of all terminated agents as required by law.

#### **STANDARD IV-5 (PAGE 24)**

*Findings:* Based on the testing noted above, the Company’s internal records adequately document reasons for agent terminations. None of the terminations RNA tested was for cause as defined in M.G.L. c. 175, § 162R. However, the Company’s policy does not require notification to the Division of the reason for termination when the termination is for cause.

*Observations:* None.

*Recommendations:* RNA recommends that the Company adopt a policy and procedures to notify the Division of the reason for termination when the termination is for cause, as required by law.

### **VI. UNDERWRITING AND RATING**

#### **STANDARD VI-23 (PAGE 43)**

*Findings:* Based on the results of our testing of non-renewals and cancellations for private passenger and commercial auto for the period January 1, 2003 through December 31, 2003, all 10 private passenger non-renewal notices and seven commercial mid-term cancellation notices appear to be in compliance with statutory requirements. Of the eight commercial insurer initiated non-renewals, six had non-renewal notices in compliance with statutory requirements. One non-renewal notice was sent 31 days prior to the effective date of the non-renewal and therefore is not in compliance with statutory requirements, and one notice could not be located, therefore, the date of the non-renewal notice is unknown.

*Observations:* None.

*Recommendations:* RNA recommends that all non-renewal notices be mailed timely and in compliance with statutory requirements.

**STANDARD VI-27 (PAGE 47)**

Findings: None.

Observations: Based on the results of our testing of 25 new and renewal auto policies, it appears that the Company uses proper coding procedures. With regard to the CAR audits of statistical reporting, premium statistical errors noted in the CAR audit were caused by three system problems, which had no effect on the rating of policies. The Company modified its systems in May 2004 to address two of the systems problems. The Company is exploring ways to address the third statistical reporting problem.

Recommendations: RNA recommends that the Company address unresolved statistical coding errors noted in the CAR audits and provide the Division and CAR with the corrective action to be taken to address these concerns.

FOR INFORMATION PURPOSES ONLY

## COMPANY BACKGROUND

The Company is headquartered in Boston, and is a subsidiary of the Plymouth Rock Group. The Company offers private passenger auto, commercial auto and third party administrative services in Massachusetts. Additionally, The Company acts as servicing carrier in Massachusetts and cedes commercial auto risks to its affiliate, Plymouth Rock Assurance Corporation. It also cedes private passenger and commercial auto risks to six non-affiliated non-Massachusetts domiciled companies. The Company's statutory surplus as of December 31, 2003 is \$6.4 million with statutory admitted assets of \$28.3 million. Since the Company cedes all risks to others, it reports no premium earned. Net income was \$1.9 million for 2003.

The Company contracts with approximately 90 Massachusetts independent producers and Exclusive Representative Producers ("ERP") assigned to them by Commonwealth Automobile Reinsurers ("CAR".) The ERPs can not be terminated by the Company.

The examination was conducted concurrently with examinations of Company affiliates, Plymouth Rock Assurance Corporation and Bunker Hill Insurance Company as certain systems, processes and controls are common to operations of one or more of these affiliated companies.

The private passenger auto market in Massachusetts is a highly regulated one characterized by mandatory coverage minimums, uniform rates set by the Division, a requirement for carriers to accept all risks and uniform coverages. Rate deviations are allowed via discounts to affinity groups as approved by the Division. Further, individual risks as determined by the carriers can be ceded to CAR. All licensed auto carriers are also required to participate in the CAR reinsurance facility. Each licensed auto carrier is allocated a share of the CAR pooled operating results and accumulated deficit in proportion to each carrier's market share in the voluntary market.

The commercial auto market includes the involuntary and voluntary markets. The involuntary commercial auto market is similar to the private passenger auto market and covers some, but not all, classes of commercial coverage. Such remaining classes are part of the voluntary market where rates and forms are approved on an individual carrier basis by the Division.

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 company has an up-to-date, valid internal, or external, audit program.**

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

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- The Company has an internal audit function and is also audited annually by an independent accounting firm.
- The Company responds to internal and external audit recommendations to correct, modify and implement procedures.
- The Company has adopted edit and audit procedures to screen and check data submitted to the Company's statistical agent, CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The Company also submits data to Automobile Insurers Bureau ("AIB"). AIB is a rating bureau that represents the insurance industry in rate hearings before the Commissioner of Insurance.

*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:* Due to the nature of this Standard, no transaction testing was performed.

*Transaction Testing Results:* Not applicable.

*Recommendations:* None.

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### **Standard I-2. The company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.**

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

\* \* \* \* \*

**Standard I-3. The company has an anti-fraud plan in place.**

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

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- The Company has a written anti-fraud plan.
- The Company has a Special Investigative Unit (“SIU”) dedicated to the prevention and handling of fraudulent activities. The SIU is part of the Company’s parent company which provides investigative services to all of the holding company operating subsidiaries.
- The SIU function does not make a distinction between claims in which the insured’s policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- The Company adheres to SIU standards established by CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The SIU holds periodic meetings with representatives from various departments at the Company including those in claims, internal audit, underwriting, sales and customer service.
- Potential fraud activity is tracked by the SIU and investigated with the assistance of other departments as necessary. Such activity is reported to the regulators as necessary.

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

*Transaction Testing Procedure:* Due to the nature of this Standard, no transaction testing was performed.

*Transaction Testing Results:* Not applicable.

*Recommendations:* None.

\* \* \* \* \*

**Standard I-4. The company has a valid disaster recovery plan.**

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

\* \* \* \* \*

**Standard I-5. The company is adequately monitoring the Managing General Agents (MGA).**

No work performed. The Company does not utilize MGAs; therefore this standard is not applicable to this examination.

\* \* \* \* \*

**Standard I-6. Company contracts with MGAs comply with applicable statutes, rules and regulations.**

No work performed. The Company does not utilize MGAs; therefore this standard is not applicable to this examination.

\* \* \* \* \*

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

Objective: This Standard is concerned with the organization, legibility and structure of files, as well as determining if the Company is in compliance with record retention requirements. The objective of this Standard was included for review in each Standard where such policy or procedure for the retention of records exists or should exist.

Controls Assessment: The Company's home office record retention policies are described for each Standard, as applicable. In addition, Company policy requires that its producers keep complete records and accounts of all insurance transactions. The Company's standard producer contract requires insurance records and accounts be kept current and identifiable. The Company's standard producer contract also maintains the Company's right to examine producers' accounts and records of all insurance transactions for as long as the Company deems reasonable including a reasonable period after the termination of a producer contract.

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 performed various procedures throughout this examination which related to review of documentation and record retention.

Transaction Testing Results: Such testing results are noted in the various examination areas.

Recommendations: None.

\* \* \* \* \*

**Standard I-8. The company 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 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. Additionally, 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 Certificate of Authority for the Company 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 company 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 exam. 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's level of cooperation and responsiveness to examiner requests was very good.

Recommendations: None.

\* \* \* \* \*

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy allows for the sharing customer and personal information with affiliates.

- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy requires a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders.
- The Company has stated that they have developed and implemented information technology security practices to safeguard nonpublic personal 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 interviewed Company personnel with responsibility for policyholder services and reviewed its privacy notice adopted in June 2001.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of applicants and policyholders, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendations: None.

\* \* \* \* \*

<p><b>Standard I-11. The company has developed and implemented written policies, standards and procedures for the management of insurance information.</b></p>
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The objective of this Standard was included for review in each Standard where such policy or procedure for the management of insurance information exists or should exist.

\* \* \* \* \*

## 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 or grievances are recorded in the required format on the company 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 received. 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 it took to process each complaint.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the complaint handling process.
- All complaints are recorded in a consistent format in the complaint log.
- The Company's definition of complaint is similar to the statutory requirement.
- The complaint handling process appears to function in accordance with written policies and procedures.
- Company personnel regularly review the complaint log to ensure compliance with statutory requirements.

The Massachusetts complaint data for 2003 is as follows:

MA Complaints	Total
Claims	30
Underwriting	10
<b>Total</b>	<b>40</b>

MA Complaint Resolution	Justified	Not Justified	Total
Claims	1	29	30
Underwriting	2	8	10
<b>Total</b>	<b>3</b>	<b>37</b>	<b>40</b>

The determination of whether a complaint was "Justified" or "Not Justified" was made by the Company's compliance staff.

*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 15 of the 40 Massachusetts complaint files from 2003 to evaluate compliance with M.G.L. c. 176D, § 3(10). For the 15 complaints, RNA reviewed the complaint files noting the response date and the documentation supporting the resolution of the complaint. Also, RNA 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: For the 15 complaints tested, RNA noted that the Company appears to maintain complaint handling procedures and a complete listing of complaints in accordance with M.G.L. c. 176D, § 3(10).

Recommendations: None.

\* \* \* \* \*

<b>Standard II-2. The company has adequate complaint handling procedures in place and communicates such procedures to policyholders. M.G.L. c. 176D, § 3(10).</b>
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Objective: This Standard addresses whether (a) the Company has documented procedures for complaint handling as required by M.G.L. c. 176D, § 3(10), (b) the procedures in place are sufficient to require satisfactory handling of complaints received as well as conducting root cause analyses in areas developing complaints, (c) there is a method for distribution of and obtaining and recording response 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: Refer to Standard II-1.

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 15 of the 40 Massachusetts complaint files from 2003 to evaluate this Standard. Also, RNA interviewed management and staff responsible for complaint handling and examined evidence of the Company's processes and controls. In addition, to determine whether or not the Company provides contact information for consumer inquiries, a sampling of forms and billing notices sent to policyholders were reviewed for compliance.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures in place and communicates such procedures to policyholders.

Recommendations: None.

\* \* \* \* \*

**Standard II-3. The company should take 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 response to the complaint fully addresses the issues raised.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the complaint handling process.
- All complaints are recorded in a consistent format in the complaint log.
- The Company's definition of complaint is similar to the statutory requirement.
- The complaint handling process appears to function in accordance with written policies and procedures.
- Company personnel regularly review the complaint log to ensure compliance with statutory requirements.
- Company policy requires that any complaint response fully addresses the issues raised.

*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 15 of the 40 Massachusetts complaint files from 2003 to evaluate this Standard.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* For the 15 complaints tested, documentation appeared to be complete including correspondence, original documentation and the Company's complaint summary. In addition, policyholders with similar fact patterns appeared to be treated consistently and reasonably.

*Recommendations:* None.

\* \* \* \* \*

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

*Objective:* This Standard is concerned with the time required for the Company to process each complaint. Massachusetts does not have a specific time standard in the statutes or regulations. However, the Division has established a practice of allowing 14 calendar days from the date that the notice of complaint is sent to the insurer by the Division for the insurer to respond to the



Division. For complaints received by the Company directly, the Company policy is to diligently respond to the complaint as soon as possible.

Controls Assessment: Refer to Standard II-1.

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 15 of the 40 Massachusetts complaint files from 2003 to evaluate timely response.

Transaction Testing Results:

Findings: None.

Observations: For the 15 complaints tested, resolution appeared to be reasonably timely and within the 14 calendar day period directed by the Division.

Recommendations: None.

\* \* \* \* \*

FOR INFORMATION PURPOSES ONLY

### 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 of Insurance Bulletin 2001-02.**

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertisements of its policies. 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 of Insurance 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.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Advertising and sales materials are targeted to other insurers and focus on the Company's third party administrative services.
- All advertising and sales materials produced by the Company are reviewed by management for approval and compliance with statutory and regulatory requirements prior to use.
- The Company's policy is that the website discloses the Company's name and the Company's address.

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

Transaction Testing Procedure: RNA reviewed all advertising and sales materials for compliance with statutory and regulatory requirements. RNA also reviewed the Company's website for appropriate disclosure of its name and address and consistency with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: The results of our testing showed that advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02.

Recommendations: None.

\* \* \* \* \*

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

Objective: This Standard is concerned with whether all of 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 has distributed a general information packet focusing on company policies, practices and procedures including underwriting and rating.
- Periodic bulletins are provided throughout the year noting changes in policies, practices 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 reviewed the general information packet and the bulletins to agents for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's general information packet and bulletins to agents appear to be accurate and reasonable.

Recommendations: None.

\* \* \* \* \*

**Standard III-3. Company 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 applicable statutes, rules and regulations.

Controls Assessment: Periodically the Company communicates information via bulletins to agents noting changes in policies, practices 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 reviewed the Company's bulletins to agents for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's bulletins to agents appear to be accurate and reasonable.

Recommendations: None.

\* \* \* \* \*

<b>Standard III-4. Company mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations. M.G.L. c. 175, § 193R</b>
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No work performed. This Standard not covered in scope of examination because the Company does not offer mass merchandising or group marketing plans as defined in statute or any affinity group discounts.

\* \* \* \* \*

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#### 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. Company records of licensed and appointed (if applicable) producers agree with department of insurance records. 18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S. Division of Insurance Bulletin 98-11.**

*Objective:* The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division. M.G.L. c. 175, § 162I requires all persons who solicit, sell or negotiate insurance in the Commonwealth to 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 Violent Crime Control and Law Enforcement Act of 1994, 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 and who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletin 98-11, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and agents who are affected by this law. Those individuals may either apply for an exemption from the law, or must cease and desist from their engagement in the business of insurance.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- The Company maintains an automated producer database that interfaces with underwriting, policyholder service and producer compensation systems.
- All producers are required to enter into a written contract with the Company prior to their appointment.
- The Company does not perform criminal and financial background checks on producers, or require evidence of the producer's E&O, prior to contracting with them.
- The Company completes background checks for new employees.
- The Company's policy is to seek approval of the Division regarding the hiring of any "prohibited person" as noted above in instances where the Company wishes to employ such a person.
- The Company verifies that producers are properly licensed for the lines of business to be sold in Massachusetts prior to contracting with them.
- The Company's appointment procedures are designed to comply with the Division's requirements prescribed in M.G.L. c. 175, § 162S, which requires that a producer must be appointed as agent within 15 days from the date the agent's contract is executed.

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 appointments. RNA selected 25 sales for the period January 1, 2003 through December 31, 2003. For each of the sales, RNA verified that any Company's agent was included on the Division's list of the Company's appointed agents. Additionally, any producer not located on the list was provided to the Division for review and to ensure that the producer was licensed at the time of sale.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing new and renewal business written, RNA noted that several of the Company's appointed agents were not listed on the Division's list of the Company's appointed agents. A list of such agents was provided to the Division for their review to ensure that such agents were licensed at the time of sale. Based upon our testing, RNA noted no violations of M.G.L. c. 175, §§ 162I and 162S as all sales were produced by properly licensed agents. RNA also noted the Company does not perform criminal background checks or require E&O insurance coverage as part of its agent contracting and appointment procedures.

Recommendations: RNA recommends that the Company work with the Division to reconcile its agent licensing and appointment records with the Division's records as of a date certain and modify its appointment procedures, as necessary, to ensure accurate and timely maintenance of its licensing and appointment records in accordance with M.G.L. c. 175, §§ 162I and 162S.

Additionally, RNA recommends that the Company begin conducting criminal background checks on producers prior to contracting with them to facilitate compliance with 18 U.S.C. § 1033 and Division of Insurance Bulletin 98-11. Additionally, the Company should consider requiring that its producers maintain E&O coverage to mitigate risks to the Company resulting from a producer's actions.

\* \* \* \* \*

<b>Standard IV-2. Producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken. 18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S Division of Insurance Bulletin 98-11.</b>
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Objective: Refer to Standard IV-1.

Controls Assessment: Refer to Standard IV-1.

Controls Reliance: Refer to Standard IV-1.

Transaction Testing Procedure: Refer to Standard IV-1.

Transaction Testing Results: Refer to Standard IV-1.

Recommendations: 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, § 162T.**

Objective: This Standard is concerned with whether the Company's termination of producers complies 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 the producer's termination, and if the termination was for cause, must notify the Division of such cause.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has implemented procedures to provide notification of termination to producers.
- The Company has not implemented procedures to provide notification of termination to the Division.

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

Transaction Testing Procedure: RNA selected a three terminated agents from the Company's records and requested documentation supporting the reporting of the terminations to the Division.

Transaction Testing Results:

Findings: The results of our testing showed that the Company was not notifying the Division when agents are terminated. As a result of this examination, the Company has begun to notify the Division when agents are terminated. See also Standard IV-5 concerning failure to report cause of terminations when termination is "for cause."

Observations: None.

Recommendation: RNA recommends that the Company work with the Division to reconcile its terminated agent records with the Division's records as of a date certain and to continue to communicate to the Division a record of all terminated agents as required by law.

\* \* \* \* \*

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

Objective: The Standard is concerned that the Company has a policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders.

Controls Assessment: Refer to Standards IV-1 and IV-3.

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 selected 25 sales for the period January 1, 2003 through December 31, 2003. For each of the sales, RNA reviewed documentation for any evidence of unfair discrimination against policyholders as a result of the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: Through our testing noted above, no evidence of unfair discrimination against policyholders was noted as a result of the Company's policies regarding producer appointments and terminations.

Recommendations: None.

\* \* \* \* \*

**Standard IV-5. Records of terminated producers adequately document reasons for terminations. M.G.L. c. 175, § 162R and 162T.**

Objective: The Standard is concerned that the Company's records for terminated producers adequately document the action taken. Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the 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.

Controls Assessment: Refer to Standard IV-3.

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 obtained a listing of terminated agents and reviewed the reasons for termination for each agent.

Transaction Testing Results:



Findings: Based on the testing noted above, the Company's internal records adequately document reasons for agent terminations. None of the terminations that RNA tested was for cause as defined in M.G.L. c. 175, § 162R. However, the Company's policy does not require notification to the Division of the reason for termination when the termination is for cause.

Observations: None.

Recommendations: RNA recommends that the Company adopt a policy and procedures to notify the Division of the reason for termination when the termination is for cause, as required by law.

\* \* \* \* \*

**Standard IV-6. Producer accounts current (account balances) are in accordance with the producer's contract with the company.**

Objective: The Standard is concerned with whether the Company's contract with the producer limits excessive balances with respect to handling funds.

Controls Assessment: Due to the nature of the Standard, no controls assessment was made. Further a majority of the Company's policies are billed on a direct basis mitigating the possibility for excessive balances from producers.

Controls Reliance: Not applicable.

Transaction Testing Procedure: Since the Company direct bills or payroll deducts premiums in most instances, debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the scope of the statutory financial examination of the Company.

Transaction Testing Results: Not applicable.

Recommendations: None.

\* \* \* \* \*

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

- The policyholder generally receives a renewal notice from the Company 30-45 days prior to the effective date of the renewal asking the policyholder to report changes in requested coverage and changes in drivers and to complete the annual low mileage form, if applicable.
- Billing notices are generated automatically through the policy administration system approximately 24-30 days before policy expiration for renewal policies and approximately 30 days before the due date for new business.
- A 25% down payment is required, and most policyholders elect direct billing in up to eight installments. Taxi business requires 30% down payment, and the remainder in eight installments.
- For installment payments, Company policy is to charge a \$3 monthly service fee. Premium finance plans are also available.

*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 monthly service fees for 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon our review of 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003, billing notices appeared to be mailed with an adequate amount of advance notice. Monthly service fees on installment payments appeared to be properly applied.

Recommendation: None.

\* \* \* \* \*

<b>Standard V-2. Policy issuance and insured requested cancellations are timely. M.G.L. c. 175, §187B.</b>
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Objective: This Standard is concerned with whether the Company has cancellation procedures to ensure that such policyholder requests are processed timely. Pursuant to M.G.L. c. 175, § 187B, the insurers are required to return premium upon the request to cancel by the policyholder in a reasonable time. Policy issuance review is included in Underwriting and Rating Standard VI-16. Return of premium testing is included in Underwriting and Rating Standard VI-25.

Controls Assessment: The following key observations were noted in conjunction with the review of cancellation and withdrawals under this Standard:

- Policyholders can cancel their policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service or evidence that the policyholder has moved out of Massachusetts.
- Most cancellations occur within 60-90 days of policy origination.
- Company policy is to cancel the policy upon notification from the agent of the policyholder's request and to process premium refunds within approximately five days.

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 selected two commercial auto insured requested non-renewals and three commercial auto insured requested mid-term cancellations for the period January 1, 2003 through December 31, 2003. RNA reviewed evidence for each of the cancellations and non-renewals that the request was processed timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon our testing of insured requested cancellations and non-renewals for the period January 1, 2003 through December 31, 2003 appeared to be processed timely.

Recommendations: None.

\* \* \* \* \*

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

Objective: This Standard is concerned with whether the Company provides timely and responsive information to policyholders and claimants. For discussion of written complaint procedures, see the Complaint Handling section.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has approximately twelve customer service representatives who answer a policyholder's questions about his or her policy or billing matters. Customer service representatives also can make address or name changes to policies. Representatives also answer agent's questions.
- The Company considers its agents as having the primary relationship with the policyholder, and since customer service representatives are not licensed agents, endorsements and policy changes must be requested by the policyholder through the agent. If a policyholder requests such changes through customer service, the policyholder will be transferred to the agent for servicing.
- The Company maintains no formal performance metrics to monitor customer service call response times and call abandon rates.

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 and rating, policyholder service and claims standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review of general correspondence between policyholders and the Company with regard to underwriting and rating, policyholder service and claims, it appears that correspondence directed to the Company is answered in a timely and responsive manner by the appropriate department in accordance with their policies and procedures.

Recommendations: None.

\* \* \* \* \*

**Standard V-4. Claims history and loss information is provided to insured in timely manner.**

*Objective:* This Standard is concerned with whether the Company provides history and loss information to the insured in a timely manner.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- The Company's agents have access to claims history and paid loss information for each of their personal lines policyholders via the Company's website.
- The Company's policy is to ask the agent to provide the policyholder, when requested, the same claims history and paid loss information to personal lines policyholders that the Company provides to their agents on a timely basis.
- The Company provides claims history and paid loss information to personal lines and commercial lines policyholders directly when the information is requested by them.

*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 policy and procedures for how the Company responds to policyholder inquiries on claims history and paid loss information.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon our review of underwriting and rating, claims, complaints and policyholder service, RNA noted no evidence of the Company being non-responsive to policyholder inquiries. Policy and procedures for how the Company responds to policyholder inquiries on claims history and paid loss information appears adequate and reasonable.

*Recommendations:* None.

\* \* \* \* \*

**Standard V-5. Whenever the company transfers the obligations of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained the prior approval of the insurance department and the company has sent the required notices to affected policyholders.**

No work performed. This Standard is not applicable as the Company does not enter into assumption reinsurance agreements.

\* \* \* \* \*

## 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. All rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company's rating plan. M.G.L. c. 175E, §§ 4 and 7, M.G.L. c. 175, §§ 113B and 193R, M.G.L. c. 175A, § 5; 211 CMR 56.00, 211 CMR 78.00, 211 CMR 86.00, 211 CMR 91.00, 211 CMR 124.00 and 211 CMR 134.00.**

*Objective:* This Standard is concerned with the accuracy of the Company's policy premiums, i.e., whether proper premiums are charged using proper rates.

For both private passenger and commercial auto policies, M.G.L. c. 175E, § 7 and 211 CMR 78.00 require 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 forty-five days before the effective date thereof. 211 CMR 86.00 requires premium discounts for anti-theft devices, and 211 CMR 124.00 mandates premium discounts for certain safety features.

For private passenger auto policies, pursuant to M.G.L. c. 175E, § 4, rates shall be reduced for insureds age sixty-five years or older. M.G.L. c. 175, § 113B mandates various discounts and surcharges. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 56.00 requires premium discounts for election of optional repair shop endorsement plans and 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.

For commercial policies, pursuant to M.G.L. c. 175A, § 5, rates 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. Additionally, rates shall not be excessive, inadequate or unfairly discriminatory. 211 CMR 91.00 also prescribes requirements for the filing of rates with the Commissioner at least 45 days prior to their effective date.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Rates are determined by the Division annually, and such rate information is incorporated in the AIB Rating Manual. The Company applies such rates to information provided by the applicant and obtained from the Massachusetts Registry of Motor Vehicles. This information includes the location of garaged vehicles.
- The low mileage discount form, which verifies actual mileage, must be completed annually to receive the low mileage discount.
- The Company has elected not to offer optional repair shop endorsement plans or affinity group discounts.

- Commercial auto rates are determined by CAR for those risks ceded to CAR. Such rates are filed with the Division. Otherwise, all other commercial auto rates are filed with the Division for prior approval.

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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing of rate classifications and premium discounts. For each of the policies, RNA verified that the policy premium, discounts and surcharges for multiple coverages complied with statutory and regulatory requirements and complied with the private passenger rates set by the Commissioner or the commercial rates filed with the Division, as applicable.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 25 new and renewal auto policies, it appears that policy premiums, discounts and surcharges for multiple coverages are calculated in compliance with statutory requirements, as well as the rates set by the Commissioner or filed with the Division, as applicable. The Company could not provide evidence of commercial rates filed with the Division in 1991 as such documentation has been lost. New commercial rates were filed with the Division in 2003 for use in 2004.

Recommendations: None.

\* \* \* \* \*

<p><b>Standard VI-2. Disclosures to insureds concerning rates and coverage are accurate and timely. M.G.L. c. 175E, §§ 11 and 11A.</b></p>
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Objective: This Standard is concerned with whether all mandated disclosures for rates and coverages are documented in accordance with statutes and regulations and provided to insureds timely. Pursuant to M.G.L. c. 175E, § 11, an information guide shall be provided upon application which outlines choices of coverage available to insureds and an approximation of differences in cost among various types of coverage and among competing carriers. Pursuant to M.G.L. c. 175E, § 11A, agents 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.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written policies and procedures for processing new and renewal business.
- If information or forms are missing, requirements are updated and a letter is sent to the agent requesting those forms and information.



- The Company's supervisory procedures are designed to ensure that new business submissions from agents are accurate and complete including use of all Company required forms and instructions including the requirement to provide the information guide and coverage options.
- The Company has provided guidance to producers to remind them that they must provide the information guide to consumers when new business is written.
- Company policy is to provide the information guide to policyholders upon policy renewal while producers provide the information guide when a new application is taken.

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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing of timely disclosure of rates and coverages.

Transaction Testing Results:

Findings: None.

Observations: Based upon our testing of 25 new and renewal private passenger auto policies, the Company appears to comply with the requirement to provide required coverage disclosures to insureds upon initial application and renewal in accordance with statutory guidelines. Although the Company has stated that they have provided the information guide for renewals and believes that the information guide was provided by producers for new business, no evidence is available supporting these assertions. However, RNA is not aware of any information suggesting that policyholders have not received the information guide.

Recommendations: None

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<p><b>Standard VI-3. The company 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).</b></p>
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Objective: This Standard is concerned with ensuring that the Company does not permit illegal rebating, commission cutting or inducements; and 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.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:



- The Company has procedures to pay producers' commissions in accordance with home office approved written contracts.
- The producer contracts and home office policies and procedures are designed to comply with provisions contained in 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, new business materials, advertising materials, producer training materials and manuals, RNA inspected such materials for indications of rebating, commission cutting or inducements. RNA also selected two agencies for each of the months of April and August 2003. RNA obtained the monthly commission statements for the selected agencies noting the premium activity and related commission payments were reasonable and did not indicate any unusual commission activity.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's processes to prohibit illegal acts including special inducements and rebating are functioning in accordance with Company policies and procedures and statutory underwriting and rating requirements.

Recommendations: None.

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<p><b>Standard VI-4. Credits and deviations are consistently applied on a non-discriminatory basis. M.G.L. c. 175E, § 4, M.G.L. c. 175, §§ 113B and 193R, M.G.L. c. 175A, § 5; 211 CMR 56.00, 211 CMR 86.00, 211 CMR 91.00, 211 CMR 124.00 and 211 CMR 134.00.</b></p>
--

Objective: This Standard is concerned with whether unfair discrimination is occurring in the application of premium discounts and surcharges. For both private passenger and commercial auto policies, M.G.L. c. 175E, § 7 and 211 CMR 78.00 require 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 forty-five days before the effective date thereof. 211 CMR 86.00 requires premium discounts for anti-theft devices, and 211 CMR 124.00 mandates premium discounts for certain safety features.

For private passenger auto policies, pursuant to M.G.L. c. 175E, § 4, rates shall not be grouped by sex or marital status and shall not be grouped by age except to produce the reduction in rates for insureds age sixty-five years or older. M.G.L. c. 175, § 113B mandates various discounts and surcharges. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 56.00 requires premium discounts for election of optional repair shop endorsement plans. and 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.

For commercial policies, pursuant to M.G.L. c. 175A, § 5, rates 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. Additionally, rates shall not be excessive, inadequate or unfairly discriminatory. 211 CMR 91.00 also prescribes requirements for the filing of rates with the Commissioner at least 45 days prior to their effective date.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges and in the application of the general rating methodology.
- Rates, premiums and discounts are determined by the Division annually, and such rate information is incorporated in the AIB Rating Manual. The Company applies such rates to information provided by the applicant and obtained from the Massachusetts Registry of Motor Vehicles. This information includes the location of garaged vehicles.
- The low mileage discount form, which verifies actual mileage, must be completed annually to receive the low mileage discount.
- Commercial auto rates are determined by CAR for those risks ceded to CAR, and such rates are filed with the Division. Additionally, all other commercial auto rates are filed with the Division prior to use.
- The Company has elected not to offer optional repair shop endorsement plans or affinity group discounts.
- Written underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges and in the application of the general rating methodology.

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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing of rate classifications, premium discounts and surcharges. For each of the policies, RNA verified that the premium discounts and surcharges for multiple coverages complied with statutory and regulatory requirements and rates as filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 25 new and renewal auto policies, it appears that policy premiums, premium discounts and surcharges for multiple coverages are calculated in compliance with statutory and regulatory requirements, as well as the rates set by the Commissioner or filed with the Division, as applicable.

Recommendations: None.

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**Standard VI-5. Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.**

No work performed. This Standard not covered in scope of examination because the Company does not offer commercial policies subject to schedule rating or individual risk premium modification plans.

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**Standard VI-6. Verification of use of the filed expense multipliers; the company should be using a combination of loss costs and expense multipliers filed with the Department.**

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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**Standard VI-7. Verification of premium audit accuracy and the proper application of rating factors.**

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

\* \* \* \* \*

**Standard VI-8. Verification of experience modification factors.**

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

\* \* \* \* \*

**Standard VI-9. Verification of loss reporting.**

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

\* \* \* \* \*

**Standard VI-10. Verification of company 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 does not offer workers' compensation insurance.

\* \* \* \* \*

**Standard VI-11. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks. M.G.L. c. 175E, § 4, M.G.L. c. 175, § 22E and M.G.L. c. 175A, § 5.**

*Objective:* This Standard is concerned with whether unfair discrimination is occurring in the sale of insurance. Pursuant to M.G.L. c. 175E, § 4, risks shall not be grouped by sex or marital status and shall not be grouped by age, except to produce the reduction in rates for insureds age sixty-five years or older. Pursuant to M.G.L. c. 175, § 22E, no insurance company, and no officer or agent thereof in its behalf, shall refuse to issue, renew or execute as surety a motor vehicle liability policy or bond, or any other insurance based on the ownership or operation of a motor vehicle because of age, sex, race, occupation, marital status, or principal place of garaging of the vehicle. For commercial policies, pursuant to M.G.L. c. 175A, § 5, rates shall not be excessive, inadequate or unfairly discriminatory.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements and will accept any risk for a licensed driver unless the consumer has outstanding balances due to insurers over the previous year or has a history of non-payment of premium over the past two years.
- Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.

*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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing of evidence of unfair discrimination in underwriting.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based on the results of our testing of 25 new and renewal auto policies, RNA noted no evidence that the Company's underwriting practices are unfairly discriminatory.

*Recommendations:* None.

\* \* \* \* \*

**Standard VI-12. All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable). M.G.L. c. 175, §§ 22A, 113A and 192.**

*Objective:* This Standard is concerned with whether policy forms and endorsements are filed with the Division for approval. Pursuant to M.G.L. c. 175, §§ 22A and 113A, such policy forms must be filed with the Division for prior approval. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and also are required to be filed with the Division for prior approval.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires the use of the standard Massachusetts policy forms and endorsements which are approved by the Division for private passenger auto policies and the use of filed and approved forms for commercial auto policies.
- Producers are required to use such forms and endorsements as guidelines when providing a quote 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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing of the use of policy forms and approved endorsements in compliance with statutory requirements.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based on the results of our testing of 25 new and renewal auto policies, it appears that the Company is using approved policy forms and endorsements in compliance with statutory requirements. The Company could not provide evidence of commercial forms filed in 1991 with the Division as such documentation has been lost. New commercial policy forms were filed with the Division in 2003 for use in 2004.

*Recommendations:* None.

\* \* \* \* \*

**Standard VI-13. Producers are properly licensed and appointed (if required) in the jurisdiction where the application was taken.**

See Standards IV-1 and IV-2 in the Producer Licensing Section.

\* \* \* \* \*

**Standard VI-14. 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 is concerned with whether 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.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures are designed to reasonably assure consistency in application of underwriting guidelines, rating classifications, premium discounts and surcharges at the inception of coverage.
- For private passenger auto, rates, premiums and discounts are determined by the Division annually, and such rate information is incorporated in the AIB Rating Manual. The Company applies such rates to information provided by the applicant and obtained from the Massachusetts Registry of Motor Vehicles.
- For commercial auto, underwriting practices and rates are determined by CAR for those risks ceded to CAR. Such policies and rates are filed with the Division. Additionally, all other commercial auto policies and rates are filed with the Division prior to use.

*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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing of whether underwriting, rating and classification are based on adequate information developed at or near inception of the coverage.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based on the results of our testing of 25 new and renewal auto policies, it appears that the Company is using underwriting, rating and classification guidelines based on adequate information developed at or near inception of the coverage.

*Recommendations:* None.

\* \* \* \* \*

**Standard VI-15. File documentation adequately supports decisions made.**

Objective: This Standard is concerned with whether policy file documentation adequately supports decisions made in underwriting and rating.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Most policy source information and related documentation is maintained and controlled by the Company, while some policy documentation is maintained by the independent producer.
- Information on rates, premium discounts, surcharges, driver status and optional coverages is provided by the producer and entered in the policy system by Company personnel.
- Company supervisors review the applications completed by producers for completeness and internal consistency.
- The Company requests driver's license information from the Massachusetts Registry of Motor Vehicles and the results of such requests are included in the Company's policy system for private passenger auto policies.

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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing of whether the policy files adequately support decisions made.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 25 new and renewal auto policies, it appears that policy files adequately supported decisions made.

Recommendations: None.

\* \* \* \* \*

**Standard VI-16. Policies and endorsements are issued or renewed accurately, timely and completely.**

Objective: This Standard is concerned with whether the Company issues policies and endorsements timely and accurately.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:



- Company policy requires the use of policy forms and endorsements which are approved by the Division.
- Producers are required to use such forms and endorsements as guidelines when providing quotes to customers.
- Company supervisors review all applications completed by producers to ensure that they are complete and internally consistent.
- Company procedures include mailing renewal notice 45-52 days prior to the policy renewal effective date.

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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing of whether new and renewal policies including endorsements were issued timely and accurately.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company issues new and renewal policies, including endorsements, timely and accurately.

Recommendations: None.

\* \* \* \* \*

<b>Standard VI-17. Audits when required are conducted accurately and timely.</b>
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No work performed. This Standard is not covered in the scope of examination because the Company does not offer policies where premium audits are conducted.

\* \* \* \* \*

<b>Standard VI-18. Company verifies that VIN number submitted with application is valid and that the correct symbol is utilized. 211 CMR 94.08.</b>
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Objective: This Standard is concerned with whether the Company verifies that the VIN submitted with the application is valid and accurate. 211 CMR 94.08 requires that pre-insurance inspections of vehicles must verify the VIN.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The producer is responsible for obtaining the VIN when the application is completed.
- Company policy and procedures require that pre-insurance inspections of vehicles verify the VIN as required by 211 CMR 94.08.



- The Company's underwriting system compares the VIN to its industry database to ensure that the VIN is 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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing whether the VIN number is valid and accurate and that the Company is in compliance with the requirements of 211 CMR 94.08.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company issues new and renewal auto policies with VINs that are valid and accurate and that the Company is in compliance with the requirements of 211 CMR 94.08.

Recommendations: None.

\* \* \* \* \*

<p><b>Standard VI-19. The company does not engage in collusive or anti-competitive underwriting practices. M.G.L. c. 176D, §§ 3(4) and 3A.</b></p>
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Objective: This Standard is concerned with 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, 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 key observations were noted in conjunction with the review of this Standard:

- Company policy is to accept any private passenger auto risk for a licensed driver unless the customer has outstanding balances due to insurers over the previous year or has a history of non-payment of premium over the past two years in compliance with statutory requirements.
- The Company is assigned producers by CAR known as Exclusive Representative Producers and must accept all business produced by them.
- For private passenger auto, premium rates are determined annually by the Division and are consistent among all private passenger auto insurers. As such, anti-trust pricing concerns are minimal for these policies.
- For commercial auto, Company policy requires the application of consistent underwriting practices.

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 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing whether any underwriting practices appear to be collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, RNA noted no instances where the Company's underwriting policies and practices appear to be collusive or anti-competitive.

Recommendations: None.

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**Standard VI-20. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations in application of mass marketing plans. M.G.L. c. 175, § 193R**

No work performed. This Standard not covered in scope of examination because the Company does not offer mass merchandising or group marketing plans as defined in statute or any affinity group discounts.

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**Standard VI-21. 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-22. Rejections and declinations are not unfairly discriminatory. M.G.L. c. 175, §§ 22E and 113D.**

Objective: This Standard is concerned with the fairness of application rejections and declinations. Pursuant to M.G.L. c. 175, § 22E, no insurance company or agent thereof in its behalf, shall refuse to issue, renew or execute as surety a motor vehicle liability policy or bond, or any other insurance based on the ownership or operation of a motor vehicle because of age, sex, race, occupation, marital status, or principal place of garaging of the vehicle. In addition, M.G.L. c. 175, § 113D states that any person aggrieved by the refusal of any company or an agent thereof to issue such a policy may file a written complaint with the commissioner within 10 days after such refusal.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy prohibits unfair discrimination in underwriting in accordance with M.G.L. c. 175, §§ 22E and 113D and will accept any private passenger auto risk for a licensed driver unless the consumer has outstanding balances due to insurers over the previous year or has a history of non-payment of premium over the past two years.
- Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.

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 selected 10 private passenger auto and 10 commercial auto non-renewals for the period January 1, 2003 through December 31, 2003 for review. Two of the commercial non-renewals were determined to be insured requested non-renewals. The remaining 18 non-renewals were tested to ensure that treatment was not unfairly discriminatory. Additionally, RNA reviewed 10 commercial auto mid-term cancellations, three of which were determined to be insured requested cancellations, for the period January 1, 2003 through December 31, 2003. The remaining seven mid-term cancellations were tested to ensure that treatment was not unfairly discriminatory.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our review of company initiated non-renewal and mid-term cancellations for the period January 1, 2003 through December 31, 2003, rejections and declinations do not appear to be unfairly discriminatory.

Recommendations: None

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<b>Standard VI-23. Cancellation/non-renewal and declination notices comply with policy provisions and state laws and company guidelines. M.G.L. c. 175, §§ 113A, 113F and 187C.</b>
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Objective: This Standard is concerned with notice to policyholders for cancellation, non-renewal and declinations, including advance notice before expiration for cancellation and non-renewals. 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 twenty 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 also must be sent to the Registry of Motor Vehicles. Every insurance agent or broker receiving such a notice from a company shall, within fifteen 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.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Declination notice is generally given to the insured at the application date as a result of not maintaining a valid driver's license, having outstanding balances due to insurers over the previous year or having a history of non-payment of premium over the past two years.
- Company policy requires that cancellation notices are required to be mailed 23-27 days prior to cancellation.
- Company policy requires that notice of non-renewal be sent to the insured or producer at least 45 days in advance of the termination effective date. Such producers are required to provide any such notice to insureds within 15 days.

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 selected 10 private passenger auto and 10 commercial auto non-renewals for the period January 1, 2003 through December 31, 2003 for review. Two of the commercial non-renewals were determined to be insured requested non-renewals. The remaining 18 private passenger and commercial auto non-renewals were tested for compliance with notice requirements. Additionally, RNA reviewed 10 commercial auto mid-term cancellations, three of which were determined to be insured requested cancellations, for the period January 1, 2003 through December 31, 2003. The remaining seven commercial auto mid-term cancellations were tested for compliance with notice requirements.

Transaction Testing Results:

Findings: Based on the results of our testing of non-renewals and cancellations for private passenger and commercial auto for the period January 1, 2003 through December 31, 2003, all 10 private passenger non-renewal notices and seven commercial mid-term cancellation notices appear to be in compliance with statutory requirements. Of the eight commercial insurer initiated non-renewals, six had non-renewal notices in compliance with statutory requirements. One non-renewal notice was sent 31 days prior to the effective date of the non-renewal and therefore is not in compliance with statutory requirements, and one notice could not be located, therefore, the date of the non-renewal notice is unknown.

Observations: None.

Recommendations: RNA recommends that all non-renewal notices be mailed timely and in compliance with statutory requirements.

\* \* \* \* \*

**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. M.G.L. c. 175, §§ 113A, 113F and 187C.**

*Objective:* Refer to Standard VI-23.

*Controls Assessment:* Refer to Standard VI-23.

*Controls Reliance:* Refer to Standard VI-23.

*Transaction Testing Procedure:* Refer to Standard VI-23.

*Transaction Testing Results:* Refer to Standard VI-23.

*Recommendations:* Refer to Standard VI-23.

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**Standard VI-25. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations. M.G.L. c. 175, §§ 113A, 187B and 187C; 211 CMR 85.00.**

*Objective:* This Standard is concerned with return of the correctly calculated unearned premium when policies are cancelled in a timely manner. M.G.L. c. 175, § 113A provides, in part, that in the event of cancellation of a motor vehicle policy by either the insured or the company, the insured, if he has paid the premium to the company, is entitled to a return of premium calculated on a pro rata basis. Pursuant to M.G.L. c. 175, § 187B, a company is required to refund the proper amount of unearned premium upon policy termination. Under M.G.L. c. 175, § 187C, a company canceling a policy of insurance must tender the full return premium due, without deductions, at the time the cancellation notice is served on the insured. Additionally, pursuant to 211 CMR 85.00, short rate tables may be required to be used to calculate premium refunds, depending on when the policy is cancelled.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that premium refunds be calculated properly and paid timely.
- The Company uses a pro-rata method or short rate table method depending upon when the cancellation occurred.

*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 tested 10 mid-term cancellations, of which seven were cancelled for non-payment and three cancelled by the insured, for the period January 1, 2003 through December 31, 2003. The three insured-requested commercial auto cancellations were tested for proper premium refund calculation and timely payment.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of non-renewals and cancellations for the period January 1, 2003 through December 31, 2003, premium refunds appear to be calculated properly and returned timely.

Recommendations: None.

\* \* \* \* \*

**Standard VI-26. Rescissions are not made for non-material misrepresentation. M.G.L. c. 175, §§ 22C and 187D.**

Objective: This Standard is concerned with 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 premiums, 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 a request for inspection of his vehicle by the insurer. M.G.L. c. 175, § 187D also allows the cancellation of the policy for nonpayment of premium.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires compliance with underwriting guidelines in accordance with M.G.L. c. 175, §§ 22C and 187D.
- Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company does not rescind auto policies.

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 tested 10 commercial auto cancellations for the period January 1, 2003 through December 31, 2003 for proper treatment.

Transaction Testing Results:

Findings: None.



Observations: Based on the results of our testing, cancellations for the period January 1, 2003 through December 31, 2003 do not appear to be made in violation of statutory requirements.

Recommendations: None.

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<b>Standard VI-27. All policies are correctly coded.</b>
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Objective: This Standard is concerned with the accuracy of statistical coding.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- For private passenger auto, rates, premiums and discounts are determined by the Division annually, and such rate information is incorporated in the AIB Rating Manual. The Company applies such rates to information provided by the applicant and obtained from the Registry of Motor Vehicles.
- For commercial auto risks ceded to CAR, such underwriting practices and rates are determined by CAR and filed with the Division. For all other commercial auto, forms and rates are filed with and/or approved by the Division prior to use, as applicable.
- CAR conducts periodic audits of the Company's compliance with CAR requirements for business ceded to CAR and conducted audits for the 2002 calendar year.
- The Company's policies and procedures require that Company personnel confirm that the coding as reported by the producer is correct and current.
- The Company has a process to correct data errors and make subsequent changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 13 new and renewal private passenger auto policies and 12 new and renewal commercial auto policies for the period January 1, 2003 through December 31, 2003 for testing of coding. Additionally, RNA reviewed the latest audit reports from CAR on the Company's compliance with CAR statistical coding requirements for key policy determinants for business ceded to CAR.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing of 25 new and renewal auto policies, it appears that the Company uses proper coding procedures. With regard to the CAR audits of statistical reporting, premium statistical errors noted in the CAR audit were caused by three system problems, which had no effect on the rating of policies. The Company modified its

systems in May 2004 to address two of the systems problems. The Company is exploring ways to address the third statistical reporting problem.

Recommendations: RNA recommends that the Company address unresolved statistical coding errors noted in the CAR audits and provide the Division and CAR with the corrective action to be taken to address these concerns.

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FOR INFORMATION PURPOSES ONLY



## 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 company with the claimant is within the required time frame. M.G.L. c. 176D, § 3(9)(b).**

*Objective:* The Standard is concerned with the timeliness of the Company's contact with the claimant. Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- Written claim forms received via fax or mail are acknowledged and a written response is made within two or three business days after notification of the claim is provided.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- All claim notifications are maintained on a mainframe based automated claims management system.
- Company policy is to respond to all physical damage claims within two business days from the receipt of a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- Company policy is to complete physical damage appraisals within five days of the date of the appraisal assignment.
- Company policy is to contact all injured persons, or their legal representatives, within two business days of receipt of a claim.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management periodically reviews open claims each month based upon an aging of all claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and processing time.

*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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted the initial response by the Company was acknowledged in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported according to the Company's policies and procedures and that the initial contact by the Company with the claimant was timely. Based upon the results of our testing, it appears that the Company's processes to report and respond to claims are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendations: None.

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<b>Standard VII-2. Investigations are conducted in a timely manner. M.G.L. c. 176D, § 3(9)(c).</b>
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Objective: The Standard is concerned with the timeliness of the Company's claims 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 a claim.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- All claim notifications are maintained on a mainframe based automated claims management system.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- Company policy is to respond to all physical damage claims within two business days from the receipt of a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- Company policy is to complete physical damage appraisals within five days of the date of the appraisal assignment.
- Company policy is to contact all injured persons, or legal representatives, within two business days of receipt of a claim.
- All injured persons claims are handled by claims staff dedicated to handling bodily injury claims in which the claimant is typically represented by an attorney.
- Claims adjusters maintain a chronological diary system to ensure timely activity on claims investigations.

- Claims management can access the claims system to monitor open claims.
- Claims management periodically reviews open claims each month based upon an aging of all claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted the investigation by the Company was conducted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported according to the Company's policies and procedures and that the claims investigation by the Company appeared timely. Based upon the results of our testing, it appears that the Company's processes to report and investigate claims are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendations: None.

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<p><b>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.</b></p>
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Objective: The Standard is concerned with the timeliness of the Company's claims 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 paid 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 auto damage appraiser licensing board has been completed. Insurers are required to make such payments within seven days of receipt of the above claim form. However, direct payments to insureds without a claim form may be made in accordance with a plan filed and approved by the Commissioner. Any such plan filed with the Commissioner must meet stated standards with regard to procedures for

selecting approved repair shops, vehicle inspection, insurer guarantees of the quality and workmanship used on 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 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, in the event of theft, reporting to the police by the insured is also required. The company must pay such claims within sixty days after filing a proof of loss. The statute also sets forth a process to select a disinterested appraiser in the event the insured and the company fail to agree as to the amount of loss.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- Company policy is to resolve all claims in a timely manner.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- All claim notifications are logged in the claims system when reported.
- All claims investigations are handled by adjustors not to exceed a defined dollar limit to their settlement authority.
- Company policy is to respond to all physical damage claims within two business days from the receipt of a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- For non-direct payment plan physical damage claims, the Company's policy is to make payment within seven business days upon receipt of an appraisal in accordance with M.G.L. c. 175, § 113O.
- The Company's direct payment plan for physical damage claims has been approved by the Division in accordance with 211 CMR 123.00. Company policy is to make direct payments as required by the plan within five days upon completion of an appraisal.
- The Company's policy is to resolve claims in compliance with M.G.L. c. 175, § 112.
- Property damage claims are paid within sixty days of receipt of a proof of loss as required by M.G.L. c. 175, § 191A. Further, although very a rare occurrence, the Company's policy is to abide by the statutory requirements to select a disinterested appraiser in the event the Company and the insured fail to agree on the amount of a loss.
- Company policy is to contact all injured persons or their legal representatives within two business days of receipt of a claim.
- All injured persons claims are handled by claims staff dedicated to handling bodily injury claims in which the claimant is typically represented by an attorney.
- Claims management can access the claims system to monitor open claims.

- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management periodically reviews open claims each month based upon an aging of all claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted the claim was resolved by the Company in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: For each of open and closed claims selected for testing, RNA noted the claims were handled and adjudicated according to the Company's policies and procedures and resolved in a timely manner. Further, for each of the selected claims, RNA verified the date the claim was reported to the Company and noted whether or not the claim was resolved in a reasonably timely manner. Of the claims tested, three were property damage claims and paid within sixty days of receipt of a proof of loss as required by M.G.L. c. 175, § 191A. RNA verified the Company's direct payment and referral repair shop plan has been approved by Commissioner as required by 211 CMR 123.00. Based upon the results of our testing, it appears that the Company's processes to resolve claims timely are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

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<p><b>Standard VII-4. The company responds to claim correspondence in a timely manner. M.G.L. c. 176D, § 3(9)(b) and 3(9)(e).</b></p>
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Objective: The Standard is concerned with 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.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to respond to questions about claims in a timely manner.
- Company policy is to investigate and resolve all claims according to Company performance standards.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management periodically reviews open claims each month based upon an aging of all claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted the Company's timely responses to claims correspondence.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported and investigated according to the Company's policies and procedures and responses to claims correspondence were timely. Based upon the results of our testing, it appears that the Company's processes to provide timely responses to claims correspondence are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendations: None.

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<b>Standard VII-5. Claim files are adequately documented.</b>
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*Objective:* The Standard is concerned with the adequacy of information maintained in the Company's claim records related to the decision on the claim.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Claim processing guidelines require that key information be completed, signed, and included in the file, including:
  - o Notice of loss with relevant accident date, accident description, and involved parties.
  - o Relevant reports from investigating police authorities.
  - o Applicable medical reports and other investigative correspondence.
  - o Other pertinent written communication.
  - o All legal correspondence.
  - o Documented or recorded telephone communication.
  - o Claim activity is logged and documented in chronological order.
  - o Claim reserve evaluations, adjustments and assessments are documented.
  - o Source correspondence and investigative reports are scanned and maintained electronically.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- Claims management periodically reviews open claims each month based upon an aging of all claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and processing time.

*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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. For each of the selected claims, RNA reviewed the claim files and noted whether claim file documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported and investigated according to the Company's policies and procedures and claim file documentation was adequate. Based upon the results of our testing, it appears that the Company's processes to document claims are functioning in accordance with their policies and procedures.

Recommendations: None.

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<b>Standard VII-6. Claim files are handled in accordance with policy provisions and state law. M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), M.G.L. c. 175, §§ 22I, 24D, 111F, 112, 112C, 113J, 113O and 193K; 211 CMR 75.00 and 133.00.</b>
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Objective: The Standard is concerned with 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 as an unfair trade practice.

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. 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 insured's liability coverage upon receiving a request in writing for such information.

M.G.L. c. 175, § 112 states that 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, § 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. 211 CMR 75.00 designates the National Insurance Crime Bureau as the central organization to be used for this purpose.

M.G.L. c. 175, § 193K prohibits discrimination by companies in the reimbursement of proper expenses paid to certain professions and occupations, such as physicians or chiropractors, licensed in Massachusetts pursuant to M.G.L. c. 112.



211 CMR 133.00 sets forth uniform standards for repair of damaged motor vehicles and only applies when an insurer pays for the costs of repairs. The regulation addresses how damage and repair costs are determined, requires like kind repair parts are 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 \$1,000.00 and 75% of all damaged vehicles for which the appraised cost of repair is more than \$4,000.00 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.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured’s policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- All claim notifications are maintained on a mainframe based automated claims management system.
- All claims investigations are handled by adjustors up to a defined dollar limit to their settlement authority.
- The Company has procedures to comply with requirements in M.G.L. c. 175, §§ 111F, 113J and 112C to furnish medical reports and/or the amount of the insured’s policy limits, upon receiving requests for such information from a claimant or their attorney.
- The Company has procedures to comply with requirements in M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support for certain defined claim payments.
- The Company has procedures to comply with requirements in M.G.L. c. 175, § 113O to verify a police report was properly filed prior to making payments for theft coverage. Further, the Company has procedures to report such thefts to the National Insurance Crime Bureau as required by 211 CMR 75.00.
- The Company’s policy prohibits discrimination in the reimbursement of proper expenses paid to certain professions and occupations as required by M.G.L. c. 175 § 193K.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management periodically reviews open claims each month based upon an aging of all claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. Further, for each of the selected claims, RNA verified the claim was handled in accordance with policy provisions, statutory and regulatory requirements, as applicable.

Transaction Testing Results:

Findings: None.

Observations: For the 24 closed claims and 14 open claims selected for testing, RNA noted 14 of the claims had a written request for disclosure of the insured's liability policy limits. The Company responded to the request within 30 days as required by M.G.L. c. 175, § 112C in each case. Of the 24 closed claims and 14 open claims selected for testing, RNA noted two were potentially subject to the intercept procedures to comply with requirements in M.G.L. c. 175, § 24D. The Company properly verified the claim recipient was not subject to the intercept requirement prior to making the claim payment.

RNA verified the Company has procedures in place to provide claimants with a list of registered repair shops as well as those repair shops which qualify as a referral shop as required by 211 CMR 123.00. Further, RNA noted the Company performs re-inspections of repaired vehicles following completion of repairs according to the requirements of 211 CMR 123.00.

Based upon the results of our testing, it appears that the Company's processes to handle claims in accordance with policy provisions, statutory and regulatory requirements are functioning in accordance with their policies and procedures.

Recommendations: None.

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<b>Standard VII-7. The company uses the reservation of rights and excess of loss letters, where appropriate.</b>
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Objective: The Standard is concerned with the Company's usage 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: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.

- All claims investigations are handled by adjusters up to a defined dollar limit to their settlement authority.
- The Company uses reservation of rights and excess of loss letters when circumstances warrant.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. For each of the selected claims, RNA reviewed the claim files and noted whether reservations of rights or excess loss letters were warranted.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported and investigated according to the Company's policies and procedures and claim file documentation was adequate. RNA noted one instance where a reservation of rights letter or excess loss letter was used. Based upon the results of our testing, it appears that the Company's processes to utilize reservation of rights and excess loss letters to claims are functioning in accordance with their policies and procedures.

Recommendations: None.

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<p><b>Standard VII-8. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.</b></p>
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Objective: The Standard is concerned with the Company's timely refund of deductibles from subrogation proceeds.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process including subrogated claims.
- Company policy is to resolve all subrogated claims in a timely manner.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- The Company has a subrogation unit as part of its claims department. Its responsibility is to manage salvage on total loss claims.

- When liability or coverage issues are undisputed with another carrier, the Company waives the deductible to its insured.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. For each of the selected claims, RNA reviewed the claim files and noted whether subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the subrogation recoveries were timely and accurate according to the Company's policies and procedures and the claim file documentation were adequate. Further, RNA noted no instances where subrogation recoveries to the insured were not timely. Based upon the results of our testing, it appears that the Company's processes to make subrogation recoveries to insureds are functioning in accordance with their policies and procedures.

Recommendations: None.

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<b>Standard VII-9. Company claim forms are appropriate for the type of product.</b>
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Objective: The Standard is concerned with the Company's usage of claim forms that are proper for the type of product.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Industry standardized claims reporting forms are utilized which are appropriate for the Company's line of business.
- Claim processing guidelines require that key documentation be completed, signed, and included in the file, including: notice of loss with relevant accident date, accident description, and involved parties.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- Claims management can access the claims system to monitor open claims.

- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. For each of the selected claims, RNA reviewed the claim files and noted whether the claim reporting was appropriate.

Transaction Testing Results:

Findings: None.

Observations: For all open and closed claims selected for testing, RNA noted the claims were reported according to the Company's policies and procedures and claim file documentation was adequate. Based upon the results of our testing, it appears that the Company's processes to document reported claims are functioning in accordance with their policies and procedures.

Recommendations: None.

\* \* \* \*

<p><b>Standard VII-10. Claim files are reserved in accordance with the company's established procedures.</b></p>
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Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to its reserving practices.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims handling process.
- Company policy is to evaluate claims timely and establish adequate reserves on all reported claims.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- Claim processing guidelines require that key information be completed, signed, and included in the file, including:
  - o Notice of loss with relevant date of loss, description, and involved parties.
  - o Relevant reports from investigating police authorities.
  - o Applicable medical reports and other investigative correspondence.

- o Other pertinent written communication.
- o All legal correspondence.
- o Documented or recorded telephone communication.
- o Claim activity is logged and documented in chronological order.
- o Claim reserve evaluations, adjustments and assessments are documented.
- o Source correspondence and investigative reports are scanned and maintained electronically.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management periodically reviews open claims each month based upon an aging of all claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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 claims reserving processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims reserving policies and procedures. For each of the selected claims, RNA verified the date the claim was reported to the Company and noted that claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

Observations: For each of the claims selected for testing, RNA noted that claim reserves were evaluated, established and adjusted according to the Company's policies and procedures and that the claims investigation by the Company appeared timely. Based upon the results of our testing, it appears that the Company's processes to evaluate, establish and adjust claim reserves are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendations: None.

\* \* \* \* \*

<p><b>Standard VII-11. 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).</b></p>
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Objective: The Standard is concerned with 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 claims 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 as an unfair claims settlement practice.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy requires that denials must include contractual basis for non-payment and inform the claimant of their right to appeal.
- All claim notifications are maintained on a mainframe based automated claims management system.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- All claims investigations are handled by adjustors not to exceed a defined dollar limit to their settlement authority.
- Claims management can access the claims system to monitor open claims.
- A written explanation of all denied claims and closed-without-payment claims is provided to a claimant.

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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. Of the 38 claims selected, RNA noted five of the claims were closed without payment. RNA verified the date the claim was reported, reviewed correspondence and investigative reports and noted whether the Company handled the claim timely and properly before closing it.

Transaction Testing Results:

Findings: None.

Observations: For the five claims closed without payment tested, documentation appeared to be complete including correspondence and other documentation. Further, the Company's conclusion appeared reasonable. Based upon the results of our testing, it appears that the Company's processes do not unreasonably deny claims or delay payment of claims.

Recommendations: None.

\* \* \* \* \*

**Standard VII-12. Cancelled benefit checks and drafts reflect appropriate claim handling practices.**

*Objective:* The Standard is concerned with the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Written policies and procedures govern the claims payment process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Company policy and claims payment procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- All claims investigations are handled by adjusters up to a defined dollar limit to their settlement authority.
- Company procedures verify the proper payee and amount and amount prior to check issuance.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

*Transaction Testing Procedure:* RNA interviewed Company personnel to understand claims payment processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims payment policies and procedures. For each of the selected claims, RNA reviewed the claim files and noted whether claim payment practices were appropriate.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* For all claims selected for testing, RNA noted the claims were reported and investigated according to the Company's policies and procedures and claim payment documentation was adequate. RNA noted no instances where claim payment practices appeared inappropriate. Based upon the results of our testing, it appears that the Company's processes to issue claim payment checks are appropriate and functioning in accordance with their policies and procedures.

*Recommendations:* None.

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**Standard VII-13. 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 is concerned with 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 what the policy contract provides for. Pursuant to M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), unfair claims 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 findings to the general court.

*Controls Assessment:* The following key observations were noted in conjunction with the review of this Standard:

- Claims handling guidelines require the uniform and consistent handling of claims settlement and payment of claims.
- Company policy is to contact all injured persons or their legal representatives within two business days of receipt of a claim.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- All injured persons claims are handled by claims staff dedicated to handling bodily injury claims in which the claimant is typically represented by an attorney.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management periodically reviews open claims each month based upon an aging of all claims to evaluate settlement issues and ensure appropriate reserves have been established.
- Claims management uses reports measuring operational effectiveness and processing times to monitor claims processing activities.

*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 claims handling processes and obtained documentation supporting such processes. RNA selected a sample of 24 claims closed during 2003 and an additional 14 claims that were pending as of December 31, 2003 to evaluate compliance with Company claims handling policies and procedures. 27 of those claims were private passenger auto claims, and 11 were commercial auto claims. Of the 38 claims selected, RNA noted four of the claims involved litigation in a bodily injury or collision claim. RNA verified the date the claim was reported, reviewed correspondence and investigative reports and noted the whether the Company handled the claim timely and properly.

Transaction Testing Results:

Findings: None.

Observations: For the four claims selected that involved litigation, documentation appeared to be complete including correspondence and other documentation. Further, the Company's conclusion appeared reasonable. Based upon the results of our testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to instigate litigation.

Recommendations: None.

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<b>Standard VII-14. Loss statistical coding is complete and accurate. M.G.L. c. 175A, § 15; 211 CMR 15.07.</b>
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Objective: The Standard is concerned with 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 in accordance with the rating system on file with the Commissioner, and the Commissioner may designate rating agency or agencies to assist her in the compilation of such data. In accordance with 211 CMR 15.07, the Commissioner established and fixed the Automobile Statistical Plan for Fire, Theft, Comprehensive, Collision and Allied Coverages (dated April 8, 1971) as the statistical plan to be used in accordance with M.G.L. c. 175A, § 15(a).

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- Company policy is to report loss data to appropriate rating bureaus timely and with complete and accurate loss data.
- The Company reports 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.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- The Company also reports loss data to AIB, which is a rating bureau that represents the insurance industry in rate hearings before the Commissioner of Insurance.
- Detailed claim data is reported quarterly to CAR and AIB. 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 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 loss statistical reporting processes and obtained documentation supporting such processes. RNA reviewed detailed reports from CAR and AIB showing the Company's loss data in summary format. RNA reviewed the CAR and AIB reports for reasonableness compared to Company statistical data for the quarter ended June 2003. RNA noted no unusual results or differences in the data. Additionally, RNA reviewed the latest audit reports from CAR on the Company's compliance with CAR statistical coding requirements for key policy determinants for business ceded to CAR.

Transaction Testing Results:

Findings: None.

Observations: The Company generally appears to report loss statistical data to rating bureaus timely and accurately and its processes are functioning in accordance with their policies and procedures, as well as statutory requirements and regulatory. For claim statistical errors noted in the latest audit reports from CAR, the Company has recently implemented a staff training program to instruct them on statistical coding.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

## SUMMARY

Based upon the procedures performed in this comprehensive 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 *NAIC Market Conduct Examiner's Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. RNA has made recommendations to address various concerns related to producer licensing and underwriting and rating.

FOR INFORMATION PURPOSES ONLY

### 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 (NAIC) and the *NAIC Market Conduct Examiners’ 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.

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