



**THE COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**

**Division of Insurance**

*Report on the Comprehensive Market Conduct Examination of*

*The Premier Insurance Company of Massachusetts*

*Worcester, Massachusetts*

*For the Period January 1, 2005 through June 30, 2006*

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July 20, 2007

The Honorable Nonnie S. Burnes  
Commissioner of Insurance  
The Commonwealth of Massachusetts  
Office of Consumer Affairs and Business Regulation  
Division of Insurance  
One South Station  
Boston, Massachusetts 02110-2208

Dear Commissioner Burnes:

Pursuant to your instructions and in accordance with Massachusetts General Law, Chapter 175, Section 4, a full comprehensive examination has been made of the market conduct affairs of

**The Premier Insurance Company of Massachusetts**

at its home office located at

10 Chestnut Street, Suite 410  
Worcester, MA 01613-0550.

The following report thereon is respectfully submitted.

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## SCOPE OF EXAMINATION

The Massachusetts Division (“Division”) conducted a comprehensive market conduct examination of The Premier Insurance Company of Massachusetts (“Premier” or “Company”) for the period January 1, 2005 through June 30, 2006. The examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. The current 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 Eide Bailly, LLP (“Eide”) were engaged to complete certain agreed-upon procedures.

## EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of Premier using the guidance and standards of the *National Association of Insurance Commissioners Market Conduct Examiners Handbook* (“Handbook”), the market conduct examination standards of the Division, the Commonwealth of Massachusetts (Commonwealth) insurance laws, regulations and bulletins, and selected federal laws and regulations. All procedures were performed under the management and control 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 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 a review of the Company’s policies and procedures regarding an assessment of the Company’s internal control environment. While the Handbook approach detects individual 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 comprehensive market conduct examination was conducted concurrently with the Division's statutory financial examination of Premier. The financial examination performed limited compliance testing, since the market conduct examination was also being conducted.

This summary of the examination is intended to provide a high-level overview of the reported results of the examination. The body of the report provides details of the scope of the examination, tests conducted, findings and conclusions, recommendations and 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. As applicable, required action(s) are mandatory in order to meet the minimum standards of a Company licensed in the Commonwealth of Massachusetts.

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 Premier. All Massachusetts insurance laws, regulations and bulletins cited in this report may be viewed on the Division's website at [www.mass.gov/doi](http://www.mass.gov/doi).

## SECTION I – COMPANY OPERATIONS / MANAGEMENT

### STANDARD I-3

#### Transaction Testing Results:

Findings: The Company has procedures in place to perform criminal background checks on all new and prospective employees, but it has no process in place to ensure that it has performed background checks on all existing Company employees.

Observations: Eide noted that the Company may not have performed criminal background checks on some long-term employees hired prior to 1994, as the Company was unable to determine exactly when criminal background checks were first required as a condition of employment.

Recommendations: Eide recommends that the Company conduct criminal background checks on all current and prospective Company employees.

## COMPANY BACKGROUND

The Company is an affiliate of The St. Paul Travelers Companies, Inc. ("STA"), specializing in writing personal automobile coverage in the Commonwealth of Massachusetts. The company utilizes independent agencies, as well as agents assigned to the company by Commonwealth Automobile Reinsurers (CAR), the state's assigned-risk facility. Under Massachusetts' law, Premier, as a servicing carrier, is obliged to "take all comers" by accepting all automobile risks submitted to the Company on a direct basis. Premier is then permitted to cede risks to CAR that do not meet its underwriting criteria and, in return, receives a ceding commission. Based on a participation formula, Premier assumes its share of involuntary private passenger automobile premiums and losses from CAR. In 1993, Premier replaced the former Travelers' Massachusetts personal lines operating division as Travelers' exclusive writer of personal lines policies in Massachusetts.

With Travelers' acquisition of the Aetna companies in 1996, Premier assumed the Massachusetts property business written by Aetna on a new and renewal basis. Until 2004, Premier's book of business remained primarily private passenger automobile business, which, in 2003, represented approximately 82% of its total net premium volume. The balance of the Company's net writings was its Massachusetts' personal lines property business (primarily homeowners' insurance), which it assumed from its parent, Travelers Indemnity Company ("TIC"), via quota share reinsurance.

Effective January 1, 2004, however, Premier became solely a private passenger automobile insurer in Massachusetts when it terminated its property quota share reinsurance agreement with TIC. This decision followed an evaluation of the prospective overall profitability of its property business, which included an evaluation of the risks of exposure to catastrophe losses and winter storms, and the cost of reinsurance to limit net losses from these events. Premier continues to manage this property business for TIC. The examination will focus solely on private passenger automobile ("PPA") coverage, since Premier has written this coverage exclusively since January 1, 2004.

For 2006 and 2005, Premier wrote the following premium volumes (000 omitted):

	Gross Premium Written		Net Premium Written		Pure Loss Ratio	
Product Line	2006	2005	2006	2005	2006	2005
PPA Liability	\$190,733	\$208,534	\$193,274	\$212,037	41.0%	28.7%
PPA Phys Damage	107,844	115,058	108,725	115,408	50.5%	52.0%
Totals	298,578	\$323,592	\$302,000	\$327,445	46.9%	35.5%

Being a mono-line, single state private passenger automobile writer, Premier's overall earnings are sensitive to regulatory events and the operating constraints within the Commonwealth of Massachusetts, particularly those related to mandated rate rollbacks and involuntary market mechanisms. The introduction of premium discounts and the competitive pricing environment in recent years have also played a significant role in the Company's earnings.

Premier's five-year average annual return on revenue ("ROR") compares very favorably with its industry peers. The Company reported strong underwriting results in 2001, despite an 8.3% mandatory personal automobile rate rollback for insurers in Massachusetts. However, the Company's pre-tax ROR was adversely affected in 2002 and 2003, decreasing substantially to 6.9% and 4.2%, respectively. These are large decreases compared to 2001's pretax ROR of 13.0%.

In 2004, the Company's profitability improved dramatically, largely driven by highly favorable prior year loss reserve development and substantially lower claim frequency in both its personal automobile and its discontinued homeowners' lines, as well as by a substantial reduction in acquisition costs associated with the

cancellation of the property quota share agreement with its parent. As a result, Premier's improved cash flow enhances its claims paying abilities.

The Company is rated A (Excellent) by AM Best Company, and ratings were stable over the examination period.

The key objectives of this examination were determined by the Division utilizing the Handbook. The remainder of this report outlines the testing and results by each major risk area defined by the Handbook.

FOR INFORMATION PURPOSES ONLY

## 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's external auditors perform internal control testing as a normal part of the annual financial statement audit procedures.

### *INTERNAL AUDITS*

- The Corporate Audit Department ("CAD") of STA performs all internal audit related functions of the Company.
- The CAD reports to the STA Audit Committee, and all businesses, functions, and geographical locations of the Company are subject to review.
- The CAD solicits input from their external auditors to assist in properly evaluating the Company's overall risks.
- The CAD annually prepares a risk based audit plan, and the frequency of the Company's audits is based upon CAD's overall risk and control assessments.
- When control issues are identified, CAD provides recommendations and requires written responses from Company management detailing the corrective action plan, individuals responsible for plan implementation and a timeframe for completion. Once this has been completed, the CAD provides senior management with a report outlining the control issues and related corrective action plans.
- The Company holds quarterly audit meetings to ensure that line management, senior management, the Audit Committee and the external auditors are aware of all control issues and developments.

### *AGENCY AUDITS*

- The Company's Compliance Analyst oversees the agency audit process, and solicits an audit team of personnel from the underwriting, claims and Special Investigative Unit ("SIU") departments.
- The Compliance Analyst determines the agencies to be audited and the timing of the audits based on volume of business, loss ratio and results of prior audits.
- The audit team conducts pre-audit research on the agencies covering many of the Handbook areas including:
  - Use of approved marketing materials
  - Communication of mandated disclosures
  - New business procedures
  - Product suitability



- Licensing requirements
- General supervision
- Upon completion of the audit, the Compliance Analyst produces a report of audit findings and appropriate corrective actions, and discusses the report with Company management, the Agency Manager and the agency.

Controls Reliance: Controls tested via document 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:

Findings: None.

Observations: None

Recommendations: None.

**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 is included in the scope of the ongoing statutory financial examination of the Company.

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

**18 United States Code (USC) § 1033; Division of Insurance Bulletins 1998-11 and 2001-14.**

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

Pursuant to 18 USC § 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, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers who are affected by this law. Individuals “prohibited” under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent

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

- The Company has a written antifraud plan.
- The Company has an SIU dedicated to the prevention and handling of fraudulent activities.
- The SIU holds periodic meetings with representatives from various departments at the Company including claims, compliance, internal audit, underwriting, sales and customer service to identify potentially fraudulent activity.
- The SIU tracks and investigates potentially fraudulent activity with the assistance of other departments when required by statute. Such activity is reported to the regulators as necessary.
- The SIU works with the Massachusetts Insurance Fraud Bureau to investigate and properly handle potential fraud.
- The Company's claims and underwriting personnel take part in ongoing continuing education, focused on identification and proper treatment of potentially fraudulent activity.
- The Company documented that it has performed criminal background checks for all new and prospective employees since 1994.
- The Company requires all employees to annually complete conflict of interest forms, which specifically state that the employee has not been convicted of a felony and is compliant with 18 USC § 1033.

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: Eide interviewed individuals with responsibility for ensuring that the Company does not employ prohibited persons as defined in 18 USC § 1033, and reviewed procedures followed by the Company to ensure compliance.

Transaction Testing Results:

Findings: The Company has procedures in place to perform criminal background checks on all new and prospective employees, but it has no process in place to ensure that it has performed background checks on all existing Company employees.

Observations: Eide noted that the Company may not have performed a criminal background check on some long-term employees hired prior to 1994, as they were unable to determine exactly when they first required these criminal background checks as a condition of employment.

Recommendations: Eide recommends that the Company conduct criminal background checks on all current and prospective Company employees.

<b><u>Standard I-4. The company has a valid disaster recovery plan.</u></b>
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No work performed. All required activity for this Standard is included in the scope of the ongoing statutory financial examination of the Company.

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

No work performed. The Company does not utilize MGA's in Massachusetts.

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

No work performed. The Company does not utilize MGA's in Massachusetts.

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

*Objective:* This Standard is concerned with the organization, legibility and structure of files, as well as with determining if the Company is in compliance with the Commonwealth's 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 the producer to keep insurance records and accounts 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 time 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:* Eide performed various procedures throughout this examination which related to review of documentation and record retention. Such testing results are noted in the various examination areas, with any exceptions noted in the Executive Summary along with the applicable standard.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* None

*Recommendations:* Such recommendations are noted in the various examination areas, with any exceptions, if any, noted in the Executive Summary.

**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 Company is operating within the requirements of its Certificate of Authority.

According to M.G.L. c. 175, § 32, a company must first obtain a certificate of authority from the Commissioner before any contracts or policies may be issued. A company may issue policies and contracts for lines of business allowed by M.G.L. c. 175, § 47.

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

- The Company's policy is to operate within the lines of business approved under its existing Certificate of Authority.

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: Eide reviewed the Company's Certificate of Authority, and compared it to the lines of business it writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Company operates within the lines of business approved under its existing Certificate of Authority.

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 examination.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

Various aspects of privacy requirements are addressed in Standards I-10 through I-17.

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

- 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders at the time an application is taken. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has developed and implemented information technology security practices to safeguard customer, personal and health information.
- The Company's internal audit function has conducted reviews of privacy policies and procedures.

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

Transaction Testing Procedure: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's 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. The Company also appears to have proper documentation to support any adverse underwriting decisions it makes.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it properly manages insurance information.

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

Various aspects of privacy requirements are addressed in Standards I-10 through I-17.

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

- The Company has a policy for informing and training its employees regarding its practices in handling and maintaining personal information of applicants and policyholders.
- The Company's policy is and procedures are in place for transmission of written notice of its privacy policy to each applicant and policyholder at the time of application for or renewal of a policy.

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: Eide interviewed Company personnel with responsibility for securing personal information about applicants and policyholders. Insurance information management standards were tested in each section on this examination.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's policy of reporting litigation costs, and its information management procedures, the Company appears to be in compliance with applicable statutes and regulations.

Recommendations: None.

**Standard I-12. The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.**

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

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

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

Various aspects of privacy requirements are addressed in Standards I-10 through I-17.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice that its privacy policy minimizes any improper intrusion into the privacy of policyholders, former policyholders and consumers that are not policyholders, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendations: None.

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

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

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

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

Various aspects of privacy requirements are addressed in Standards I-10 through I-17.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504 (a), and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, and discussion with Company personnel, it appears that the Company disclosed privacy information to policyholders in accordance with its policies and procedures.

Recommendations: None.

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

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

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

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

Various aspects of privacy requirements are addressed in Standards I-10 through I-17.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.

- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company provides consumer information to business partners or other third parties only to help provide essential services to the consumer, and therefore is not required to provide an opt out option.

Recommendations: None.

**Standard I-15. The company's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.**

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

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

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

Various aspects of privacy requirements are addressed in Standards I-10 through I-17.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- 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 for its policyholders.

- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, and discussion with Company personnel, it appears that the Company's privacy policies and procedures are adequate to protect nonpublic personal financial information.

Recommendations: None.

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

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

Objective: This Standard is concerned with ensuring that the Company's policies and procedures regarding nonpublic personal health information are in compliance with applicable statutes.

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

Various aspects of privacy requirements are addressed in Standards I-10 through I-17.

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

- The Company stated that it does not sell any personal consumer information to third parties.

- 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company's privacy policies and procedures are adequate to protect nonpublic personal health information.

Recommendations: None.

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

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

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

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

Various aspects of privacy requirements are addressed in Standards I-10 through I-17.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and its related rule 16 CFR Part 313, regarding privacy requirements of nonpublic personal information.

- The Company has written policies and procedures in place for security of nonpublic policyholder and consumer information.
- The Company stated that it does not sell personal information to third parties.
- 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 for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company stated that it has 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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice. The financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice that it has adequate and properly documented policies and procedures for the protection of nonpublic policyholder and consumer information.

Recommendations: None.

## II. COMPLAINT HANDLING

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

**Standard II-1. All complaints are recorded in the required format on the company complaint register.**

**M.G.L. c. 176D, § 3(10).**

*Objective:* This Standard addresses whether the Company formally tracks complaints or grievances.

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

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

- The Company has written policies and procedures governing the complaint handling process.
- The Company records all complaints in a consistent format in the complaint log.
- The Company's definition of complaint is similar to the statutory definition.
- The Company has a consumer service team to receive and respond to complaints.
- The Company's Hartford Office receives all complaints from the Division and forwards them to their in-house Compliance Consultant, who reviews the file and forwards it to the appropriate manager for investigation and response.

*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:* Eide obtained complete complaint lists from the Company and the Division for the examination period, and found that both lists logged 86 complaints about Premier made to the Division during the examination period. Each of the 86 complaints was reviewed to ensure that they were handled in accordance with M.G.L. c.176, § 3(10).

Review of the complaints indicated the following:

Type of Complaint	Number of Complaints	Percent of Total
Claim Handling	56	65%
Underwriting	25	29%
Policyholder Services	5	6%
<b>Total</b>	<b>86</b>	<b>100%</b>

Based on these findings and a planning risk assessment, Eide performed detail testing on claim handling and underwriting as outlined later in this report.

Transaction Testing Results:

Findings: None.

Observations: For the 86 complaints tested, Eide 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.

**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).**

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

Pursuant to M.G.L. c. 176D, § 3(10), the Company must be able to demonstrate that (a) the Company has documented procedures for complaint handling as required by the Division, (b) the procedures in place are sufficient to enable satisfactory handling of complaints received as well as to conduct root cause analysis of 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: Eide reviewed a complete list of 86 Massachusetts complaint files from both the Company and the Division for the examination period to evaluate this Standard, and to ensure that the Company performs root cause analysis of complaints. Eide also interviewed management and staff responsible for complaint handling, and examined evidence of the Company's complaint handling processes and controls. A sample of 50 forms and billing notices was reviewed to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures in place, including root cause analysis, and communicates such procedures to policyholders.



Recommendations: None.

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

Objective: This Standard addresses whether the Company response to the complaint fully addresses the issues raised.

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: Eide reviewed a complete list of 86 Massachusetts complaint files from both the Company and the Division for the examination period to evaluate this Standard. Eide also interviewed management and staff responsible for complaint handling, and examined evidence of the Company's complaint handling processes and controls.

Transaction Testing Results:

Findings: None

Observations: Eide noted that the Company responded to the issues raised in each of the 86 complaints tested in an appropriate and complete manner through its' formal complaint process. The Company further appears to treat complainants with similar fact patterns in a consistent manner, and adequately documents its complaint files.

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 complaint time standard in the statutes or regulations. However, established Division practice requires insurers to respond to the Division within 14 days of the date it receives any complaint from the Division.

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: Eide reviewed a complete listing of the Massachusetts complaint files from the Division for the examination period to evaluate this Standard. In addition, Eide reviewed all complaints to determine the reason for delay for any which exceeded the 14 day response time required by the Division.

Transaction Testing Results:

Findings: There were three complaints that did not appear to meet the 14 day response time required by the Division.

Observations: Eide noted that the Company responded to the issues raised in each of the 86 complaints tested in a complete manner through its' formal complaint process. The Company further appears to treat complainants with similar fact patterns in a consistent manner, and adequately documents its complaint files. The Company has a standard that all complaints filed with the Division, and inquiries not filed through the Division, should be handled within seven days. In the event that the issue will take longer than seven days to resolve, the Company will send a letter to the Division requesting more time to respond. In two cases where the Company exceeded the required response time, it neglected to send the follow up letter asking for more time. In the third instance, the Company lost a complaint when it was faxed to the appropriate manager at a different office location for handling, after initial receipt of the complaint at the Company's home office.

The Company instituted supplemental procedures to enhance its complaint oversight. According to Company managers, these new procedures, implemented prior to the examination, entail sending an e-mail with a read receipt request whenever faxing a complaint to managers working at office locations other than the home office. If the read receipt is not received within two business days of sending the e-mail, a phone call to the manager is made to confirm the receipt of the complaint.

Recommendations: None.

### III. MARKETING AND SALES

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

**Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations.**

**M.G.L c. 176D, § 3; Division 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 of its advertisements.

Pursuant to M.G.L. c. 176D, § 3, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. Pursuant to Division Bulletin 2001-02, an insurer who maintains an Internet website must disclose on that website the name of the Company appearing on the certificate of authority, and the address of its principal office.

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

- The Company has written policies and procedures governing the advertising and sales material approval process.
- The Company's marketing materials consist of brochures, magnets, etc. to be distributed by authorized independent producers. The Company relies upon producers to market the Company's business through the independent producer relationship.
- All advertising and sales materials produced by the Company are reviewed by its legal department for approval and compliance with statutory and regulatory requirements prior to use.
- All advertising and sales materials produced by the Company's independent producers must be reviewed and authorized by the Company's legal department prior to use.
- All approved materials are assigned a document approval number that must be displayed on the marketing material.
- The Company has a website designed for use by consumers and producers which complies with Division of Insurance Bulletin 2001-02.
- The Company discloses its history and facts such as contact and individual policy information on its website.

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

*Transaction Testing Procedure:* Eide reviewed direct advertising and sales materials produced by the Company for compliance with statutory and regulatory requirements. Eide also reviewed the Company's website for appropriate disclosure of its name and address, and compliance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: The results of Eide's testing of marketing material showed that the Company's advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3, and with Division 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 the Company's producer training materials are in compliance with the Commonwealth's statutes, rules and regulations.

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

- The Company's sales force in Massachusetts is through independent producers.
- The Company uses its website to immediately communicate product changes, as well as changes in statutes or regulatory interpretations, to its appointed independent producers.
- There are no formal continuing education courses made available by the Company to assist its approved independent producers.

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: Eide performed no transaction testing beyond inquiry and observation.

Transaction Testing Results:

Findings: None.

Observations: None

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

- The Company uses its website to immediately communicate product changes, as well as changes in statutes or regulatory interpretations, to its appointed independent producers.
- The Company's sales force in Massachusetts is comprised of Company approved independent producers, and producers assigned to the Company by CAR.

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: Eide conducted interviews with key Company personnel to determine the type of communications with producers that generally occur, and reviewed examples of communications that occurred during the examination period.

Transaction Testing Results:

Findings: None.

Observations: The Company's communications to producers appear accurate and reasonable.

Recommendations: None.

**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.**

Objective: This Standard is concerned with whether the Company's mass marketing efforts are in compliance with applicable statutes, rules and regulations.

Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby automobile insurance is offered to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

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

- Written Company underwriting guidelines are designed to reasonably assure consistency in the application of premium discounts and surcharges.
- The Company's policy is to file all affinity discounts with the Division.
- The Company does not actively market to obtain group policies.
- Agents submit a group policy application to the Company for approval prior to issuance of a group policy.
- An agent's approved group policy is filed with the Division prior to being issued by the Company.

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: Eide interviewed Company personnel with responsibility for the marketing and underwriting processes. Eide selected five policies issued or renewed during the examination period, for testing of premium discounts associated with group policies. Eide verified that the discount for each of the five policies underwritten as a group policy was properly applied, and that it was included on the Division's list of filed and approved discounts.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of five group policies issued or renewed during the examination period, it appears that each of the premium discounts was properly applied, and each was approved by the Division.

Recommendations: None.

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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.**

**M.G.L. c. 175, §§ 162I and 162S.**

*Objective:* The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division.

Pursuant to M.G.L. c. 175, § 162I, all persons who solicit, sell or negotiate insurance in the Commonwealth are required to be licensed for that line of authority. Further, producers shall not act as a producer of the Company unless they have been appointed by them pursuant to M.G.L. c. 175, § 162S.

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

- The Company has a centralized licensing department charged with ensuring that all producers are licensed and appointed.
- The agency manager is responsible for notifying the Company's central licensing unit of any change in agency personnel using the required protocol.
- Notification to the central licensing unit of a change to a producer's name or address is not required.
- The Company notifies the Division of producer terminations on an as needed basis through the Division's Online Producer Appointment website, ("OPRA").
- When a producer is appointed or terminated, the required information is entered into the Company's licensing database. A member of the Company's central licensing unit will analyze the information for completeness and accuracy. Upon verification that the producer has an active license, the analyst will use OPRA to appoint the producer.
- The Company's appointment procedures are designed to comply with M.G.L. c. 175, § 162S, which requires that a producer be appointed by the Company within 15 days from the date their contract is executed, or from the date the first coverage application is submitted.

*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, with the exceptions noted below.

*Transaction Testing Procedure:* Eide interviewed individuals with responsibility for producer contracting and processing of appointments. Eide selected a sample of 50 sales during the examination period for testing, and verified that the producer for each sale was included on the Division's list of the Company's appointed producers.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of policies issued or renewed during the examination period, Eide noted no violations of M.G.L. c. 175, §§ 162I and 162S, as all sales were generated by properly licensed producers.

Recommendations: None.

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

**M.G.L. c. 175, §§ 162I and 162S.**

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division.

Pursuant to M.G.L. c. 175, § 162I, producers must be licensed for each line of authority that they solicit, sell or negotiate. Further, any such producer shall not act as a producer of the Company unless they have been appointed by the Company pursuant to M.G.L. c. 175, § 162S.

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

- The Company has a centralized licensing department charged with ensuring that all producers are licensed and appointed.
- The Company performs criminal background checks on all applicants prior to appointment.
- The agency manager is responsible for notifying the Company's central licensing unit of any change in agency personnel using the required protocol.
- Notification to the central licensing unit of a producer's name or address change is not required.
- The Company notifies the Division of producer terminations on an as needed basis through OPRA.
- When a producer is appointed or terminated, the required information is entered into the Company's licensing database. A member of the Company's central licensing unit will analyze the information for completeness and accuracy. Upon verification that the producer has an active license, the analyst will use OPRA to appoint the producer.
- The Company's appointment procedures are designed to comply with M.G.L. c. 175, § 162S, which requires that a producer be appointed by the Company within 15 days from the date their contract is executed, or from the date the first coverage application is submitted.

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, with the exceptions noted below.

Transaction Testing Procedure: Eide interviewed individuals with responsibility for producer contracting and processing of appointments. Eide verified that the producer for each of the 50 tested sales from the examination period was on the Division's list of the Company's appointed producers.



Transaction Testing Results:

Findings: None

Observations: The Company provides written notice to producers of the requirements of 18 USC § 1033.

Recommendations: None

**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 Commonwealth and to the producer.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of a producer's termination, and of the cause of any "for cause" termination.

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

- The Company has a centralized licensing department charged with ensuring that all producers are licensed and appointed.
- The agency manager is responsible for notifying the Company's central licensing unit of any change in agency personnel using the required protocol.
- Notification to the central licensing unit of a producer's name or address change is not required.
- The Company notifies the Division of producer terminations on an as needed basis through OPRA.

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: Eide requested and reviewed documentation of the Company's reporting of all producer terminations from the examination period to the Division.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company notifies terminated producers using a letter whose contents have been approved by the Division. When the termination is "for cause" the Company sends the notice to the producer via certified mail, return receipt requested. The Company notifies the Division of the termination consistent with procedures established by the Division.

Recommendations: None.



**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:* Eide reviewed documentation, such as zip codes, from 50 selected sales from the examination period for evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Eide's testing noted no evidence of unfair discrimination against policyholders resulting from 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 a producer's termination, and of the cause for any such termination as defined in M.G.L. c.175, § 162R.

*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:* Eide obtained a list of producers terminated during the examination period, and reviewed the reasons for each termination.

Transaction Testing Results:

Findings: None.

Observations: Based on the testing noted above, the Company's internal records adequately document reasons for producer terminations. None of the terminations tested were for cause as defined in M.G.L. c. 175, § 162R. The Company has procedures in place for notifying the Division of terminations whether "for cause" or "not for cause".

Recommendations: None.

<b>Standard IV-6. Producer accounts current (account balances) are in accordance with the producer's contract with the insurer.</b>
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No work performed. All required activity for this Standard is included in the scope of the ongoing statutory financial examination of the Company.

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## 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.**

**Automobile: 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, automobile 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 Company offers their customers the option of paying their entire annual automobile premium at the policy's inception, or utilizing a monthly payment plan. The amount of the deposit required for the monthly payment plan correlates to the customer's payment history, with the remaining unpaid premium billed in equal installments over the life of the policy.
- The Company offers a wide variety of payment methods for the convenience of their customers, including payroll deduction, electronic funds transfer, and credit card payment.
- Company policy is to send automobile policy renewal notices, on which coverage changes can be requested, so that policyholders receive them 60-65 days prior to the policy renewal date.
- The Company's billing notices are generated automatically through a third party administrator, and are sent with the renewal notice for the direct bill program. The premium payment is due upon the 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: Eide interviewed Company personnel with responsibility for policyholder service. In conjunction with the underwriting and rating testing, Eide reviewed billing notice dates, and fees and interest charges for 50 policies issued or renewed during the examination period. For each renewed policy, the date the renewal letter was sent to the policyholder, as tracked in the Company's database, was compared with the policy's effective renewal date.

Transaction Testing Results:

Findings: None.

*Observations:* Eide's review of the 50 tested automobile policies issued or renewed during the examination period showed that billing notices for renewal policies were mailed 60-65 days prior to the policy expiration date.

*Recommendations:* None.

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

**M.G.L. c. 175, § 187B.**

Refer to the Underwriting and Rating Section Standards VI-16 and VI-25 for assessments and findings.

**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 from the appropriate department.

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

- The Company has a variety of ways in which an insured may contact them including calling an 800 phone number, submitting a claim document with the company or notifying the producer of the claim.
- Issues that require additional review are handled separately from those that require standard responses. A "standard" response includes when the policyholder inquires about policy effective dates, status of their claim check, and other general information. Issues that could require additional review include when a policyholder disputes the amount of a claim payment after it has been adjusted, or has a formal complaint about the Company's actions related to any area from sales and underwriting, to processing a claim.
- The Company's policy is to contact an insured within 24 hours of receiving their inquiry.

*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:* Eide discussed correspondence procedures with Company personnel, and reviewed actual correspondence between policyholders and the Company, in conjunction with review of the underwriting and rating, policyholder service and claims standards.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon Eide's 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. The complaint testing performed also supports the timeliness of the Company's responses to correspondence.

Recommendations: None.

<b>Standard V-4. Claims history and loss information is provided to insured in timely manner.</b>
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Objective: This Standard is concerned with whether the Company provides claim 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 insured's loss history is readily accessible in the software used by the Company.
- Claim examiners contact the insured the same day as receiving the assignment.
- Claims are normally settled and paid within 60 days of being filed. Exceptions to this timeframe typically only exist when there are questions regarding liability or substantial losses, (such as losing an entire house or major medical issues), whose total costs are not necessarily known within 60 days of a claim being filed.
- The Company provides claim history and paid loss information directly to policyholders upon request.

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

Transaction Testing Procedure: Eide discussed the Company's policies and procedures for responding to policyholder inquiries on claims history and paid loss information with Company personnel. Eide included timely response testing in the Claims Handling section as part of the transaction testing procedures.

Transaction Testing Results:

Findings: None.

Observations: Eide noted no evidence of the Company being non-responsive to policyholder inquiries throughout testing of the underwriting and rating, claims handling, complaints and policyholder service standards. The Company's policies and procedures for responding to policyholder inquiries on claims history and paid loss information appear 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. The Company did not enter into assumption reinsurance agreements during the examination period.

FOR INFORMATION PURPOSES ONLY

## VI. UNDERWRITING AND RATING

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

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

**M.G.L. c 175, § 193R.**

**Automobile: M.G.L. c. 175E, §§ 4 and 7; M.G.L. c. 175, §§ 113B and 150E; 211 CMR 56.00, 78.00, 86.00, 124.00, and 134.00.**

*Objective:* This Standard is concerned that the rates charged by the Company are filed and approved with the Division.

Pursuant to M.G.L. c. 175E, § 7 and 211 CMR 78.00, every insurer, or rating organization authorized to file on behalf of such insurer, shall file with the Commissioner every manual of its classifications, rules and rates, rating plans and modifications of any of the foregoing, not less than 45 days before the effective date thereof. Pursuant to M.G.L. c. 175, § 113B, various discounts and surcharges are statutorily mandated. Pursuant to M.G.L. c. 175, § 150E, automobile rate filings must include commission costs. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. Pursuant to M.G.L. c. 175E, § 4, rates shall be reduced for any insured age sixty-five or older. Pursuant to 211 CMR 56.00, premium discounts are mandated for election of optional repair shop endorsement plans. 211 CMR 86.00 requires premium discounts for anti-theft devices. 211 CMR 124.00 mandates premium discounts for certain safety features 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.

*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.
- The Company offers affinity group discounts.
- The Company recognizes and utilizes the Safe Driver Insurance Plan required by 211 CMR 134.00.
- The Company has set discounts for motor vehicle safety features and anti-theft devices consistent with statutory requirements.
- The Company uses the rates set forth in the manual published by the Automobile Insurance Bureau of Massachusetts ("AIB") when underwriting automobile policies in Massachusetts.

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

Transaction Testing Procedure: Eide interviewed the Company's underwriting personnel to gain understanding of the underwriting process. Eide selected a sample of 50 automobile policies issued or renewed during the examination period for testing of rates, classifications and premium discounts. Eide verified that each policy's premium discounts and surcharges for multiple coverages complied with statutory and regulatory requirements, and had documentation to support the discounts and surcharges given. Eide also reviewed the underwriting file to ensure that sufficient underwriting information was available at the time of the underwriting decision.

Transaction Testing Results:

Findings: None.

Observations: Eide believes from its review of available documentation of rates and surcharges given that the Company applies rates and surcharges according to statutory requirements and regulatory information.

Recommendations: None.

**Standard VI-2. Disclosures to insureds concerning rates and coverage are accurate and timely.**

**M.G.L. c. 174A, § 11; M.G.L. c. 175A, § 11.**

**Automobile; M.G.L. c. 175E, §§ 11 and 11A.**

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

Pursuant to M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11, the insurer will furnish to the insured any requested rate information in a timely manner. Pursuant to M.G.L. c. 175E, § 11, an information guide, which outlines available coverage choices and gives an approximation of cost differences among various types of coverage and among competing carriers, shall be provided upon application. Pursuant to M.G.L. c. 175E, § 11A, producers shall disclose coverage options in simple language to every person they solicit, including the option to exclude oneself and members of one's household from personal injury protection coverage.

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 from new business or renewal applications, the Company sends a letter to the producer requesting the missing information, along with an updated listing of the information required to complete all applications.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete, including use of all Company required forms and instructions.
- Company policy is to provide the information guide to policyholders upon policy issuance.

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: Eide interviewed Company personnel with responsibility for the underwriting process, and reviewed the information guides utilized for new business.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's inquiries and examination of documents, the Company appears to provide required coverage disclosures to insureds upon initial application in accordance with statutory guidelines.

Recommendations: None.

**Standard VI-3. 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).**

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 producer 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 premium, 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 producer contracts and home office policies and procedures are designed to comply with statutory underwriting and rating requirements that prohibit special inducements and rebates.
- Upon submission of an application, the Company reviews it to determine that only appropriate discounts have been allowed.
- The Company performs monthly audits of various producers' underwriting and commission payment procedures, to ensure adherence with applicable laws.

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: Eide reviewed new business materials including advertising, producer training materials and manuals, for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

*Observations:* Based on the results of Eide's testing, it appears that the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with Company policies and procedures, and statutory underwriting and rating requirements.

*Recommendations:* None.

**Standard VI-4. Credits and deviations are consistently applied on a non-discriminatory basis.**

**M.G.L. c. 175, § 193R.**

**Automobile; M.G.L. c. 175E, § 4; M.G.L. c. 175A, § 5; 211 CMR 56.00, 86.00, 124.00 and 134.00.**

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

M.G.L. c. 175A, § 5 states automobile rating will be determined by past history, and will not be unfairly discriminatory. 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 or older. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 56.00 mandates discounts for participating repair shops if the Company offers a preferred repair shop option. 211 CMR 86.00 mandates discounts for automobiles equipped with anti-theft mechanisms. Pursuant to 211 CMR 124.00, insurers will provide discounts for automobiles equipped with proper safety features. Pursuant to 211 CMR 134.00, automobile insurers are required to use Safe Driver Insurance Plan ratings when applying discounts and surcharges.

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

- The Company has elected to offer affinity group discounts, and files them annually with the Division.
- The Company does not offer a preferred repair shop option to its automobile policyholders.
- The Company provides discounts for certain groups in Massachusetts approved by the Division. The standard discount is 5% for standard employer groups, and 8% for employer groups and alumni with a favorable loss history. The Company also indicated that competitive force, such as two insurers pursuing the same employer group, also may play a role in the discount offered.
- The Company has written underwriting guidelines designed to assure reasonable consistency in the application of premium discounts and surcharges for all policies.
- The Company follows the rating and discounts outlined in the AIB manual to ensure compliance with automobile 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:* Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 50 automobile policies issued or renewed during the examination period for testing of rate classifications, premium discounts and surcharges. Seven of the 50 policies examined were affinity group discount policies. Eide verified that all affinity discounts included in the examined policies were

on the filed list maintained by the Division, and that each policy's premium discounts and surcharges were applied according to statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's testing of 50 policies issued or renewed during the examination period that the Company calculates premium, premium discounts and surcharges for multiple coverages in accordance with statutory and regulatory requirements.

Recommendations: None.

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

**M.G.L. c. 152, § 53A(9).**

Objective: This Standard is concerned with the calculation of risk premium, and whether assigned class codes are properly supported with adequate documentation.

Standard not tested. The Company does not write workers' compensation insurance.

**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.**

Objective: This Standard is concerned with how risk premium is calculated, and whether the Company is using expense multipliers that are filed with the Division.

Standard not tested, the Company does not write workers' compensation insurance.

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

Objective: This Standard is concerned with the accuracy of premium audits performed by the Company on commercial policyholders. Specifically, it is concerned that the rates applied to payroll are appropriate for the client circumstances.

Standard not tested, the Company does not write workers' compensation insurance.

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

*Objective:* This standard is concerned that the Company applies appropriate experience modification discounts to policies. Experience modification factors in Massachusetts are determined by the WCRIB.

Standard not tested. The Company does not write workers' compensation insurance.

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

*Objective:* This standard is concerned with whether the Company maintains adequate loss information under each workers' compensation policy, and reports losses on unit statistical reports to the NCCI.

Standard not tested. The Company does not write workers' compensation insurance.

**Standard VI-10. Verification of company data provided in response to the NCCI call on deductibles.**

*Objective:* This standard is concerned with the Company's compliance with reporting deductibles to the NCCI, which uses this information to identify trends in the insurance industry.

Standard not tested. The Company does not write 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 175, §§ 162F and 193T.**

**Automobile; M.G.L. c. 175, §§ 22E, 95B, 113K, and 113N; M.G.L. c. 175E, § 4.**

*Objective:* This Standard is concerned with whether unfair discrimination is occurring in the sale of insurance.

Pursuant to M.G.L. c. 175, § 22E, no insurance company, and no officer or producer thereof on its behalf, shall refuse to issue, renew or execute as surety a homeowners or 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. Pursuant to M.G.L. c. 175, § 95B, discrimination against abuse victims is prohibited in the course of underwriting property insurance. Pursuant to M.G.L. c. 175, § 113K, individuals over the age of 16 are entitled to receive automobile insurance. M.G.L. c. 175, § 113N prohibits the use of physical examinations in the underwriting process. According to M.G.L. c. 175, § 162F, producers have the right to use personal insurance information in obtaining coverage. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation, or physical impairment unless verified by actuarial support. Pursuant to M.G.L. c. 175E, § 4, risks shall not be grouped by sex, marital status or age, except to produce the reduction in rates for any insured age sixty-five or older.

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

- The Company's written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- Company policy prohibits unfair discrimination in underwriting in accordance with M.G.L. c. 175E, § 4 and c. 175, § 22E, and accepts any risk 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.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 50 policies covering all lines of business issued or renewed during the examination period for testing of any unfair discrimination in underwriting. Six of the 50 tested policies were lapsed for lack of payment of monthly premiums during the examination period, and those were compared to the other 44 policies to ensure that similar risks were not handled differently. All policies tested were also compared to others with similar circumstances to ensure consistent application of discounts and surcharges.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of the six policies lapsed during the examination period, Eide 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, §§ 2B, 22A, and 192.**

**Automobile: M.G.L. c. 175, § 113A.**

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

M.G.L. c. 175, § 2B describes policy form language, and requires that all items forming a part of the contract be listed on the declaration page and filed with the Division. M.G.L. c. 175, § 22A and 113A states that such policy forms must be filed with the Division for approval. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and must be filed with the Division for approval prior to use.

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

- The Company uses standard industry forms and endorsements for automobile insurance that are approved by 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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 50 policies issued or renewed during the examination period, to test for the use of the standard policy forms and approved endorsements in compliance with statutory requirements. The standard forms used for each policy, along with all endorsements effective on the policy, were compared to the forms approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 50 policies issued or renewed during the examination period, it appears that the Company is using the standard policy forms and endorsements approved by the Division, in compliance with statutory requirements.

Recommendations: None.

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

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

**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 Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges based on information developed at or near the inception of coverage.
- The Company relies on pre-inspection services, information from prior insurers and physical documentation to provide information pertinent to assigning rates and discounts to automobile 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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 50 policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near the inception of the coverage. Discounts and surcharges given were traced to source documentation provided by producers. Eide verified that the SDIP surcharges and discounts assigned to policies were assessed based on the insured driver, and not on excluded drivers. In addition, Eide reviewed database information to ensure that adequate information was available at the time of the Company's underwriting decision.

Transaction Testing Results:

Findings: None

Observations: Through examining available documentation of discounts and surcharges given, Eide believes that the Company is properly applying discounts and surcharges.

Recommendations: None.

<b>Standard VI-15. File documentation adequately supports decisions made.</b>
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Objective: This Standard is concerned with whether the Company has adequate documentation to support its underwriting decisions, including applications, support for discounts applied and physical inspections when required.

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

- Written Company policies and procedures are designed to ensure that required information is obtained and maintained by the Company or its producers.
- The Company relies on pre-inspection services, information from prior insurers, and physical documentation to provide information pertinent to assigning rates and discounts to automobile 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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected 50 policies issued or renewed during the examination period to test whether the Company has adequate documentation to support its underwriting decisions.

Transaction Testing Results:

Findings: None.

Observations: Through examination of available documentation of discounts and surcharges given, Eide believes that the Company is properly applying discounts.

Recommendations: None.



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

**Automobile; M.G.L. c. 175, § 113S; 211 CMR 50.00.**

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

Pursuant to M.G.L. c. 175, § 113S, pre-insurance inspection of vehicles is required for all but new vehicles, and the vehicles of existing customers who have been customers for at least three years. 211 CMR 50.00 describes the standards and procedures for conducting pre-insurance vehicle inspections, and the exemptions from such requirements.

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.
- The Company's producers are required to use such forms and endorsements as guidelines when providing quotes to consumers at the time of application.
- Policyholders receive a renewal notice on which they can request coverage changes 60-65 days prior to their automobile policy renewal date.
- The Company has policies and procedures to ensure that pre-insurance inspections are done in accordance to M.G.L. c. 175, § 113S.

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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 50 policies issued or renewed during the examination period to test whether new and renewal policies, including endorsements, were issued timely and accurately. The date renewal letters were sent was compared to the policy renewal effective date.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

**Standard VI-17. Audits when required are conducted accurately and timely.**

Objective: This Standard is concerned that premium audits be performed correctly and timely when required.

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

- The Company continuously performs premium audits to ensure that it applies appropriate rates and codes to 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: Eide interviewed Company personnel with responsibility for the underwriting process.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company performs premium audits in a manner consistent with statutory and regulatory requirements, and appears to follow up on the audit findings within a reasonable period of time.

Recommendations: None.

**Standard VI-18. Company verifies that VIN number submitted with application is valid and that the correct symbol is utilized.**

**Automobile: 211 CMR 94.08.**

Objective: This Standard is concerned with whether the Company verifies that the Vehicle Identification Number ("VIN") submitted with the application is valid and accurate.

211 CMR 94.08 requires that pre-insurance inspections of vehicles 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 policies and procedures require that pre-insurance inspections of vehicles verify the VIN as required by 211 CMR 94.08.
- The Company sends batches of VIN numbers to the Massachusetts Registry of Motor Vehicles ("RMV") website to check their validity, as prescribed by the AIB manual.
- The Company manually breaks down a VIN according to the AIB manual when it cannot be found on the RMV website.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process for capturing the VIN information. Eide also performed walkthroughs of transactions to gain understanding of the Company's process for entering VINs into the RMV website, and how information related to that VIN is gathered. Eide selected a sample of 50 automobile policies issued or renewed during the examination period, and examined evidence of the VIN batches for these policies being sent to and returned from the RMV website.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company verifies VIN numbers in a manner consistent with statutory and regulatory requirements

Recommendations: None.

**Standard VI-19. The company does not engage in collusive or anti-competitive underwriting practices.**

**M.G.L. c. 176D, §§ 3(4) and 3A.**

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 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 comply with statutory requirements to accept any risk, unless the consumer has outstanding balances due to insurers over the previous year, or has a history of non-payment of automobile insurance over the past two years.
- The Company must accept all automobile business from producers known as Exclusive Representative Producers that are assigned to them by CAR.
- Automobile premium rates are determined annually by the Division, and are consistent among all private passenger automobile insurers. As such, anti-trust pricing concerns are minimal for private passenger automobile 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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 50 policies issued or renewed during the examination period to test whether

underwriting practices appeared collusive or anti-competitive. All available documentation in each policy file was examined.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, Eide noted no instances where the Company's underwriting policies and practices appeared collusive or anti-competitive.

Recommendations: None.

**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.**

Objective: This Standard is concerned that the Company's underwriting practices are not unfairly discriminatory and are in compliance with applicable statutes, rules and regulations.

Pursuant to M.G.L. c. 175, § 193R, any design or plan whereby insurance is afforded to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise, is a mass merchandising or group marketing system, and such practices must be in compliance with applicable statutes and regulations, and not be unfairly discriminatory.

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

- Written Company underwriting guidelines are designed to assure reasonable consistency in the application of premium discounts and surcharges, and underwriting practices that are not unfairly discriminatory.
- The Company provides the same discount of between 2-15% to each member of any given affinity group.
- Premium discounts available to affinity groups are filed with and approved by 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: Eide interviewed Company personnel with responsibility for the marketing and underwriting processes, and selected a sample of 50 policies issued or renewed during the examination period to test premium discounts.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of 50 policies issued or renewed during the examination period, it appears that each of the premium discounts was properly applied in a manner that was not unfairly discriminatory.

Recommendations: None.

**Standard VI-21. All group personal lines property and casualty policies and programs meet minimum requirements.**

**M.G.L. c. 175, § 193R.**

Objective: This standard is concerned with whether all group policies meet the minimum requirements, and whether the group exists for more than the sole purpose of receiving group rates.

Pursuant to M.G.L. c. 175, § 193R, group rates are allowed but must not be higher than the same rate in the individual market. Further, individual certificate holders in the group cannot be canceled except for fraud or non-payment, and insurers must maintain 3 years of group loss history.

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

- The Company has an approved group listing that is updated annually.
- The Company has procedures in place to ensure that groups have been formed for more than the sole purpose of receiving group 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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide also selected 50 policies issued or renewed during the examination period to test whether group policies are properly approved, with rates not higher than in the individual market. Since none of the 50 originally selected policies included a group policy, Eide selected an additional five group policies to specifically test whether these policies complied with M.G.L. c. 175, § 193R. Eide ensured that the approved group listing was complete and accurate, and traced each group policy to the list of approved groups maintained by the Division. Eide also verified that the rate structures were identical for both the individual and group policies before any discounts were applied, thus ensuring that the base rates were non-discriminatory.

Transaction Testing Results:

Findings: None.

Observations: The results of Eide's testing of five group policies issued or renewed during the examination period with discounts applied, appeared to show that the Company's group underwriting practices comply with statutory and regulatory requirements.

Recommendations: None.

**Standard VI-22. Rejections and declinations are not unfairly discriminatory.**

**M.G.L. c. 175, § 193T.**

**Automobile: M.G.L. c. 175, §§ 22E and 113D.**

Objective: This Standard is concerned with the fairness of application rejections and declinations.

M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation or physical impairment, unless verified by actuarial support. Pursuant to M.G.L. c. 175, § 22E, no insurance company or producer 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 a producer thereof to issue such a policy, may file a written complaint with the Commissioner within ten days after such refusal.

Controls Assessment: See Standard VI – 17.

Controls Reliance: See Standard VI – 17.

Transaction Testing Procedure: See Standard VI – 17.

Transaction Testing Results: See Standard VI – 17.

Recommendations: See Standard VI – 17.

**Standard VI-23. Cancellation/Non-renewal and declination notices comply with policy provisions and state laws and company guidelines.**

**M.G.L. c. 175, §§ 187C and 193R.**

**Automobile; M.G.L. c. 175, §§ 22C, 113A and 113F.**

Objective: This standard is concerned that adequate notice to policyholders is provided prior to policy cancellations and non-renewals, and that policy declinations state the reasons for such declinations.

Pursuant to M.G.L. c. 175, § 22C, cancellation of automobile policies can only occur due to nonpayment, fraud, driver suspension or failure to comply with renewal requirements, after a 30 day notice. Pursuant to M.G.L. c. 175, § 113A, no cancellation of the policy shall be valid unless written notice of the specific reasons for such cancellation is given at least 20 days prior to the effective date thereof, which date shall be set forth in the notice. M.G.L. c. 175, § 113F states that any Company which does not intend to issue, extend or renew a motor vehicle liability policy shall give written notice to the insured (or producer in certain circumstances) of its intent 45 days prior to the termination effective date. Such notice must also be sent to the RMV. Every insurance producer or broker receiving such notice from a company shall, within 15 days of its receipt, send a copy of such notice to the insured, unless, prior to such notice being issued, 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. M.G.L. c. 175, § 193R allows cancellation of an individual certificate holder within a group policy only due to fraud or non-payment.

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

- Past due notices on automobile policies are sent 11 days after the premium due date. Cancellation notices are sent 34 days after the premium due date, with policy cancellation effective 48 days after the due date.
- Reminder notices are not sent prior to the notice of cancellation.

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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 50 policies issued or renewed during the examination period for underwriting testing. Six of the 50 policies were cancelled policies. These six policies were examined to ensure that the reasons for cancellation, and the prior notice of cancellation, complied with statutory requirements. The reason for each policy's cancellation or non-renewal was compared to the Company's underwriting cancellation policy guidelines. Eide verified that the cancellation form used was the standard approved form, and that the date of the cancellation letter, when compared to the cancellation effective date, showed that timely notice was given within statutory guidelines.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to utilize standard approved forms for all cancellation notices and to comply with statutory guidelines for timely notification to insureds.

Recommendations: None.



**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, §§ 187C, 193P and 193R.**

**Automobile; M.G.L. c. 175, §§ 22C, 113A and 113F.**

Refer to Standard VI-23 for control assessments, testing procedures and testing results.

**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, §§ 187B and 187C.**

***Objective:*** This Standard is concerned with properly calculating and timely returning unearned premium when policies are cancelled.

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 cancellation notice is served on the insured.

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

- Company policy requires that premium refunds on cancellations be calculated properly and paid timely.
- Upon receipt of cancellation evidence, the Company issues a cancellation memorandum noting the date of cancellation and the amount of return premium due.

***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:*** Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 50 policies from all lines of business issued or renewed during the examination period for underwriting and rating testing. Six of the 50 selected policies were cancelled policies. The reason for cancellation of each of the six policies was reviewed to ensure that it was within statutory guidelines.

***Transaction Testing Results:***

***Findings:*** None.

***Observations:*** Based on the results of Eide's testing of cancellations during the examination period, cancellations do not appear to be made in violation of statutory requirements.

***Recommendations:*** None.

**Standard VI-26. Rescissions are not made for non-material misrepresentation.**

**M.G.L. c. 175, § 187D.**

**Automobile: M.G.L. c. 175, § 22C.**

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 any company except for nonpayment of premium, the failure to complete the application, fraud or material misrepresentation in the application. The statute allows cancellation when 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 Company 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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected a sample of 50 policies from all lines of business issued or renewed during the examination period for underwriting and rating testing. Six of the 50 selected policies were cancelled policies. The reason for cancellation of each of the six policies was reviewed to ensure that it was within statutory guidelines.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing of cancellations during the examination period, cancellations do not appear to be made in violation of statutory requirements.

Recommendations: None.

**Standard VI-27. All policies are correctly coded.**

*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 that are designed to assure reasonable consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that the coding reported by the producer is correct and current.
- The Company has a process for correcting data errors and making any changes 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:* Eide interviewed Company personnel with responsibility for the underwriting process, to determine whether there are sufficient controls to ensure accurate and timely completion of statistical reports. Eide randomly sampled 50 policies testing accuracy, timeliness of completion and inclusion in statistical reports.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Through testing performed on the selected policies, the Company's statistical coding appears accurate.

*Recommendations:* None.

## VII. CLAIMS

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

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

**M.G.L. c. 176D, § 3(9)(b).**

*Objective:* This Standard is concerned with the timeliness of the Company's initial contact with the claimant.

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

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

- The Company has written policies and procedures governing the claim handling process.
- The Company primarily uses insurance adjusters that are Company employees, but will use independent adjusters as demand or territorial convenience dictates.
- Claims are typically received through producers via telephone calls, during which ACORD claim forms are filled out.
- All claim notifications and related correspondence are recorded on a mainframe based automated claims management system.
- Reserves, which are probable amounts payable resulting from a claim, are only recorded if the physical damage will not be resolved within ninety days of the claim filing. Reserves are recorded for bodily injury if the claim cannot be settled within thirty days.
- The Company monitors reserves and adjusts them as new information becomes available.
- The Company follows CAR's policy of requiring response to all physical damage claims within two business days of receiving a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- The Company follows CAR's policy of contacting all injured persons, or their legal representatives, within two business days of receiving a claim.
- The Company follows CAR's policy of contacting an uninjured person, or their legal representative, within three business days of receiving a claim.
- Company claims management personnel can access the claims system to monitor open claims.
- Management reviews the claims process at three different levels.
  - Premier unit managers perform a self review of their claims process.
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - Their parent company, TIC, performs an annual review on Premier's claim handling processes.

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: Eide interviewed Company personnel to understand the claim handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to test the timeliness of the Company's initial contact with claimants. Eide verified the date each selected claim was first reported to the Company, and noted whether the Company's initial response was made in a timely manner according to applicable statutes and Company procedures.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each of the 75 tested claims was reported and investigated according to the Company's policies and procedures, and that responses to claims correspondence were timely. Based upon the results of Eide's testing, it appears that the Company's processes for providing timely responses to claims correspondence are functioning in accordance with their policies and procedures, and are reasonably timely.

Recommendations: None.

**Standard VII-2. Timely investigations are conducted.**

**M.G.L. c. 176D, § 3(9)(c).**

Objective: The Standard is concerned with the timeliness of the Company's claim investigations.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: 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: Eide interviewed Company personnel with responsibility for claim handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified the date that each selected claim was reported to the Company, and noted whether its investigation was conducted in a reasonable and timely manner.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that in each of the 75 claims tested, the Company's processes for reporting and investigating claims are functioning in accordance with their policies and procedures, and are reasonable and timely.

Recommendations: None.

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

**M.G.L. c. 176D, § 3(9)(f); M.G.L. c. 175, §§ 28 and 112.**

**Automobile: M.G.L. c. 175, §§ 113O and 191A; 211 CMR 123.00.**

Objective: The Standard is concerned with the timeliness of the Company's claim settlements.

Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claim settlement practices include failing to effectuate prompt, fair and equitable settlement 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 such findings to the General Court.

M.G.L. c. 175, § 112 states that the liability of any company under a motor vehicle liability policy, or under any other policy insuring against liability for loss or damage on account of bodily injury, death, or damage to property, shall become absolute whenever the loss or damage for which the insured is responsible occurs, and the satisfaction by the insured of a final judgment for such loss or damage shall not be a condition precedent to the right or duty of the company to make payment on account of said loss or damage.

M.G.L. c. 175, § 113O states that payments to insureds under theft or comprehensive coverage shall not be made until a claim form has been received from the insured, stating that the repair work described in an appraisal made pursuant to regulations promulgated by the automobile damage appraiser licensing board has been completed. Insurers are required to make such payments within seven days of receiving the claim form. However, direct payments to insureds without a claim form may be made in accordance with a plan filed with and approved by the Commissioner. Any such plan filed with the Commissioner must meet stated standards with regard to procedures for selecting approved repair shops, vehicle inspection, insurer guarantees of the quality and workmanship on repairs, and prohibitions on discrimination in 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, § 191A prescribes information that must be included in a motor vehicle policy. The policy shall specify that in the event of a loss, the insured must give notice to the Company as soon as is practical. In the event of larceny, the insured must give notice to the police and, within sixty days after proof of loss is filed, the company shall pay the amount of loss provided in the policy.

Controls Assessment: Refer to Standard VII-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: Eide interviewed Company claims personnel to understand its claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide verified the date each selected claim was reported, and whether it was timely and reasonably resolved by the Company.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each tested claim was timely handled according to the Company's policies and procedures. Based upon the results of Eide's testing, it appears that the Company's processes for timely resolving claims are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

**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).**

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 claim questions in a timely manner, usually within seven days.
- Company policy is to investigate and resolve all claims according to Company performance standards.
- Management reviews the claim process at three different levels
  - Premier unit managers perform a self review of their claims process.
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - Their parent company, TIC, performs an annual review on the Premier's s claim handling processes.

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: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid



or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide verified the date each selected claim was reported to the Company, and noted whether it timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all of the 75 claims tested were reported and investigated according to the Company's policies and procedures, and responses to claims correspondence were timely. Based upon the results of Eide's testing, it appears that the Company's processes for providing timely responses to claims correspondence are functioning in accordance with their policies and procedures, and are reasonably timely.

Recommendations: None.

<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 claim decisions.

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

- The Company's written claim processing guidelines require that key information be completed, signed, and maintained in the file, including, but not limited to:
  - Notice of loss with relevant accident date, accident description, and names of involved parties.
  - Relevant reports from investigating police authorities.
  - Applicable medical reports and other investigative correspondence.
  - Other pertinent written communication.
  - All legal correspondence.
  - Documented or recorded telephone communication.
- Claim activity is logged and documented in chronological order.
- Claim reserve evaluations, adjustments and assessments are documented.
- Source correspondence and investigative reports are maintained.
- Management reviews the claims process at three different levels:
  - Premier unit managers perform a self review of their claims process.
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - Their parent company, TIC, performs an annual review on Premier's claim handling processes.

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: Eide interviewed Company claim personnel to understand their claim handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that claims were reported and investigated according to the Company's policies and procedures, and that claim file documentation was adequate.

Recommendations: None.

**Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.**

**M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); M.G.L. c. 175, §§ 22I, 24D, 111F, 112, 112C and 193K.**

**Automobile; M.G.L. c. 175, §§ 113J and 113O; 211 CMR 75.00 and 133.00.**

Objective: The Standard is concerned with whether proper claim settlement amounts are paid to appropriate claimants/payees.

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 settlement of claims in which liability has become reasonably clear 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 written request..

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 the insured's statement has been properly filed. 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 NICB 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 when an insurer pays the cost of repairs. The regulation addresses how damage and repair costs are determined, requires that like kind repair parts be used, and sets forth methods for determining vehicle values. It further allows vehicles deemed a total loss to be repaired subject to certain requirements and limits. Lastly, the regulation requires an insurer to have licensed appraisers conduct “intensified” appraisals for at least 25% of all damaged vehicles for which the damage is less than \$1,000, and for 75% of all damaged vehicles for which the appraised cost of repair is more than \$4,000 for collision, limited collision, and comprehensive claims. The “intensified” appraisal is to determine if the repairs were made in accordance with the initial appraisal and any supplemental appraisals.

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

- The Company has written policies and procedures governing the claims handling process.
- The Company primarily uses insurance adjusters that are Company employees, but will use independent adjusters as demand or territorial convenience dictates.
- Claims are typically received through the agents via telephone calls, during which ACORD claim forms are filled out.
- All claim notifications and related correspondence are recorded on a mainframe based automated claims management system.
- Reserves, which are probable amounts payable resulting from a claim, are only recorded if the physical damage will not be resolved within ninety days of the claim filing. Reserves are recorded for bodily injury if the claim cannot be settled within thirty days.
- The Company monitors reserves and adjusts them as new information becomes available.
- Company claims management personnel can access the claims system to monitor open claims.
- Management reviews the claims process at three different levels:
  - Premier unit managers perform a self review of their claims process.
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - The Company’s parent, TIC, performs an annual review on Premier’s claim handling processes.
- The Company has procedures to comply with requirements in M.G.L. c. 175, §§ 111F 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’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.

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: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid

or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. The initial sample revealed only one denied claim, so Eide pulled an additional five denied claims to search for unfair claim practices. Eide verified whether each selected claim was handled in accordance with applicable policy provisions, statutory and regulatory requirements.

Transaction Testing Results:

Findings: The Company did not report one automobile theft claim to the NICB within two days as required by Massachusetts' law. The Company has given assurances that it has instituted procedures to ensure the timely submission of theft claims to the NICB system.

Observations: Eide noted that all but one of the 80 tested claims were reported and investigated according to the Company's policies and procedures, and responses to claims correspondence were timely. Eide believes the noted exception to be an isolated incident when compared to the timely handling of the remaining tested claims. Based upon the results of Eide's testing, it appears that the Company's processes for providing timely responses to claim correspondence are functioning in accordance with their policies and procedures, and are reasonably timely.

Recommendations: None.

<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 use of reservation of rights letters, and its procedures for notifying an insured when the amount of loss will exceed policy limits.

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

- The Company has written policies and procedures governing the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Each claim representative handles claims up to a fixed dollar amount that is tied to their level of experience. All claims exceeding this dollar limit require additional approval to be settled.
- The Company uses reservation of rights and excess of loss letters when warranted.
- Management reviews the claims process at three different levels.
  - Premier unit managers perform a self review of their claims process.
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - The Company's parent, TIC, performs an annual review on Premier's claim handling processes.

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide noted during testing that there was only one denied claim in the sample and, although it included a reservation of rights letter, Eide felt it necessary to pull five additional denials to further test proper denial procedures. Eide reviewed the six files for each selected claim denial, and noted whether the Company sent reservation of rights letters. Eide reviewed the other 74 files in the initial sample for excess of loss letters when warranted.

Transaction Testing Results:

Findings: None.

Observations: None of the 74 tested claims closed without payment warranted an excess of loss letter. Each of the six denied claims included a reservation of rights letter.

Recommendations: None.

<b>Standard VII-8. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.</b>
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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:

- All claims with subrogation potential are handled in the Company's centralized subrogation department.
- Company policy is to resolve all subrogated claims in a timely manner.
- When liability or coverage issues are undisputed with another carrier, the Company waives the deductible to its insured.
- Management reviews the claims process at three different levels:
  - Premier unit managers perform a self review of their claims process.
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - The Company's parent, TIC, performs an annual review on Premier's claim handling processes.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. In this sample, 24 claims involved subrogation recoveries. Eide reviewed the files for each selected claim, and noted whether subrogation recoveries were timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: Eide observed that subrogation recoveries for all applicable paid claims selected for testing were timely and accurate, and were properly supported according to Company policies and procedures. Based upon the results of Eide's testing, it appears that the Company's processes for making subrogation recoveries to insureds are functioning in accordance with their policies and procedures.

Recommendations: None.

<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 use 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:

- Company claim processing guidelines require that key documentation be completed, signed, and included in the file, including but not limited to: notice of loss with relevant accident date, accident description, and names of involved parties.
- The Company's policy is to use state mandated claim forms whenever applicable, and then use a combination of industry standard forms and in-house forms which have been approved by the Division.
- Management reviews the claims process at three different levels:
  - Premier unit managers perform a self review of the Company's claims process.
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - The Company's parent, TIC, performs an annual review on Premier's claim handling processes.

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: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether its claim reporting was appropriate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all paid or closed without payment claims selected for testing were reported according to the Company's policies and procedures, and that claim file documentation was adequate. Based upon the results of Eide's testing, it appears that the Company's processes for documenting reported claims are functioning in accordance with their policies and procedures.

Recommendations: None.



**Standard VII-10. Claim files are reserved in accordance with the company's established procedures.**

*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:

- The Company has written policies and procedures governing the claims handling process.
- All claim notifications and related correspondence are recorded on a mainframe based automated claims management system.
- Reserves, which are probable amounts payable resulting from a claim, are only recorded if the physical damage will not be resolved within 90 days of the claim filing. Reserves are recorded for bodily injury if the claim cannot be settled within 30 days.
- The Company monitors reserves and adjusts them as new information becomes available.
- Company claims management personnel can access the claims system to monitor open claims.
- Management reviews the claims process at three different levels.
  - Premier unit managers perform a self review of their claims process.
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - The Company's parent, TIC, performs an annual review on Premier's claim handling processes.

*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:* Eide interviewed Company personnel to understand its claim reserving processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim reserving policies and procedures. Eide verified the date each selected claim was reported to the Company, and noted whether claim reserves were evaluated, established and adjusted in a reasonable and timely manner consistent with Company policy.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Eide noted that reserves for each selected claim 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 Eide's testing, it appears that the Company's processes for evaluating, establishing and adjusting claim reserves are functioning in accordance with their policies and procedures, and are reasonable and timely.

*Recommendations:* None.



**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).**

***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 claim settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he or she was entitled to receive. M.G.L. c. 176D, § 3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim an unfair claim settlement practice.

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

- Company policy requires that claim denials state the contractual basis for non-payment, and inform the claimant of the time frame and specific steps necessary to pursue their right of appeal.
- All claim notifications are recorded on a mainframe based automated claims management system.
- Company claims management can access the claims system to monitor open claims.
- A written explanation of all denied and closed-without-payment claims is provided to each claimant.
- Claims filed by claimants may have a portion of the claim denied or closed without payment based on guidance set forth in the policy.
- The Company may deny or close without payment a portion of a claim, such as for bodily injury or physical damage, due to incorrect garaging or driver information being disclosed on the policy. In these circumstances the Company will cover a portion of the claim as set forth in the policy, but deny portions of the claim related to the incorrect 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:*** Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period to evaluate the Company's compliance with its claim handling policies and procedures. Eide noted only one denied claim in the initial sample. Therefore, Eide selected an additional five denied claims to adequately test the Company's handling of denied and closed without payment claims. Eide verified the date the claim was reported, reviewed correspondence and investigative reports and noted whether the Company handled each claim timely and properly before closing or denying it.

***Transaction Testing Results:***

***Findings:*** None.

Observations: Eide noted that each tested claim was timely handled according to the Company's policies and procedures. Based on the original 75 claims tested, and the additional five denied claims pulled for review, it appears that the Company's claim handling and denial practices are appropriate and comply with applicable statutes and standards.

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:

- The Company has written policies and procedures governing the claim payment process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Company procedures verify the proper payee and claim payment amount prior to check issuance.
- Management reviews the claims process at three different levels:
  - Premier unit managers perform a self review of their claim processes
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - The Company's parent, TIC, performs an annual review on Premier's claim handling processes.
- The SIU investigates claims that may be fraudulent.
- Company claims management personnel can access the claims system to monitor open claims.

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claim payment processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claim payment policies and procedures. Eide reviewed the file for each selected claim, and noted whether claim payment practices were appropriate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each selected claim was reported and investigated according to Company policies and procedures, with adequate claim payment documentation. Eide noted no instances where claim payment practices, or investigation of suspicious claims, appeared inappropriate. Based upon the results of Eide's testing, it appears that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with their policies and procedures.

Recommendations: None.

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

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

- The Company's claim handling guidelines require the uniform and consistent handling of claim settlements and payments.
- The Company has an easy to access complaint line that customers may utilize to discuss perceived delays in claim processing.
- Company claims management can access the claims system to monitor open claims.
- Management reviews the claims process at three different levels:
  - Premier unit managers perform a self review of their claims processes.
  - Interoffice inspections are performed on the claim departments of the various office locations of the Company.
  - The Company's parent, TIC, performs an annual review on Premier's claim handling processes.

**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:** Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a total sample of 75 claims paid or closed without payment during the examination period, to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified the date the tested claim was reported, reviewed related correspondence and investigative reports, and noted whether it was handled timely and properly.

**Transaction Testing Results:**

**Findings:** None.

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

Recommendations: None.

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

**M.G.L. c. 175A, § 15(a).**

**Automobile; 211 CMR 15.07.**

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, and the rating system on file with the Commissioner. The Commissioner may designate a 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 timely report complete and accurate loss data to appropriate rating bureaus.
- Company claims management personnel reconcile the underlying data for completeness and accuracy, and generate exception reports 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: Eide interviewed Company personnel to understand loss statistical reporting processes, and obtained documentation supporting such processes.

Transaction Testing Results:

Findings: None.

Observations: The Company 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 and regulatory requirements.

Recommendations: None.

## SUMMARY

Based upon the procedures performed in this comprehensive examination, Eide 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. Eide has made a recommendation to address the concern related to company operations and management.

FOR INFORMATION PURPOSES ONLY

## ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Eide Bailly LLP, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division 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. In addition, Dorothy K. Raymond of the Division’s Market Conduct Section participated in the examination and in the preparation of this report.

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

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