



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

*Report on the Comprehensive Market Conduct Examination of*

***Progressive Direct Insurance Company  
Progressive Casualty Insurance Company***

***Cleveland, Ohio***

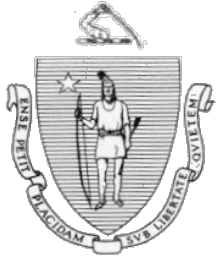
***For the Period January 1, 2013 through December 31, 2013***

**NAIC COMPANY CODE: 16322 AND 24260**

**EMPLOYER ID NUMBER: 34-1524319 AND 34-6513736**

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

1000 Washington Street, Suite 810 • Boston, MA 02118-6200  
(617) 521-7794 • <http://www.mass.gov/doi>

**DEVAL L. PATRICK**  
GOVERNOR

**GREGORY BIALECKI**  
SECRETARY OF HOUSING AND  
ECONOMIC DEVELOPMENT

**BARBARA ANTHONY**  
UNDERSECRETARY OF CONSUMER AFFAIRS  
AND BUSINESS REGULATION

**JOSEPH G. MURPHY**  
COMMISSIONER OF INSURANCE

December 4, 2014

Honorable Joseph G. Murphy  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, Massachusetts 02118-6200

Dear Commissioner Murphy:

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

**PROGRESSIVE DIRECT INSURANCE COMPANY**  
**PROGRESSIVE CASUALTY INSURANCE COMPANY**

at their home offices located at:

6300 Wilson Mills Road  
Cleveland, Ohio 44143

The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of Progressive Direct Insurance Company (“PRDRT”) and Progressive Casualty Insurance Company (“PCIC”), (collectively, the “Company”) for the period January 1, 2013 to December 31, 2013, with focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete the examination.

## EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2013 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the domiciliary regulator’s financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the domiciliary regulator’s financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

The internal control assessment is comprised of three significant steps: (a) identifying controls; (b) determining whether the control has been reasonably designed to accomplish its intended purpose in mitigating the risk; and (c) verifying that the control is functioning as intended (i.e., review or testing of the controls). The effectiveness of the internal controls was considered when determining sample sizes for transaction testing. The form of this examination report is “Report by Test,” as described in Chapter 15, Section A of the Handbook.

The Division considers a “finding” to be a violation of Massachusetts insurance laws, regulations or bulletins. An “observation” along with a recommendation is considered a departure from an industry best practice. The Division recommends that Company management evaluate any “finding” or “observation” for applicability to other jurisdictions. All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify unacceptable or non-compliant business practices does not constitute acceptance of such practices. When applicable, corrective actions should be taken in all jurisdictions. The Company shall report to the Division any such corrective actions taken.

## EXECUTIVE SUMMARY

This summary of the examination of the Company is intended to provide a high-level overview of the examination results highlighting where recommendations were made or required actions were noted. The body of the report provides details of the scope of the examination, the examination approach, internal controls for each standard, review and test procedures conducted, findings and observations, recommendations and required actions, and if applicable, subsequent Company actions. The body of the report also discusses the Company's compliance with requirements from previous Regulatory Settlement Agreements between the Company and the Division. Company managerial and supervisory personnel from each operational area should review the examination report for results relating to their specific area.

The following is a summary of all findings and observations, along with related recommendations and required actions and, if applicable, subsequent Company actions noted in this examination report. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division's website at [www.mass.gov/doi](http://www.mass.gov/doi).

The examination resulted in no recommendations or required actions with regard to company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, or claims. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in the examination. Further, the tested Company practices appear to meet industry best practices in these areas.

## SECTION IV-PRODUCER LICENSING

### STANDARD IV-3

*Findings:* For one agency appointment termination, written notice to the agency was not provided 180 days in advance of the termination in accordance with M.G.L. c. 175, § 163.

*Observations:* For the appointment terminations tested, except as noted above, the Company properly notified the agents about the terminations, as applicable, and the Division through the OPRA system, in compliance with statutory requirements.

*Required Actions:* The Company shall ensure that it provides written notice of terminations to independent agents at least 180 days in advance of the termination, except in the case of "for cause" terminations.

## SECTION VI-UNDERWRITING AND RATING

### STANDARD VI-1

*Findings:* RNA testing of 2011 activity indicated that vacated surcharges by the Board of Appeal for four consumers were not timely reversed in accordance with Division Bulletin 2010-11. Also, RNA testing of 2013 activity indicated that a vacated surcharge by the Board of Appeal for one consumer was not timely reversed in accordance with Division Bulletin 2010-11.

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Observations: Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that the Company properly determined policy premiums using rating symbols for optional collision and comprehensive coverages. Testing also noted that at-fault accident determinations were timely reported to the Merit Rating Board, and appeal notices were properly provided to at-fault operators. In addition, except as noted above, testing of 2011 and 2013 vacated surcharges indicated that vacated surcharges by the Board of Appeal were properly and timely reversed in accordance with statutory and regulatory requirements.

Required Actions: The Company shall review monitoring controls to ensure that all vacated surcharges by the Board of Appeal are timely and properly processed within 30 days, make any necessary process changes, and provide the appropriate training to staff to ensure timely processing. The Company shall complete an independent assessment of the effectiveness of the vacated surcharge reversal monitoring procedures by June 30, 2015, or another agreed upon date, and report the results of the assessment to the Division. Finally, the Company shall adopt a new procedure to complete an annual review and comparison of their vacated surcharge data with data directly obtained from the Board of Appeal.

Subsequent Company Actions: During 2013, the Company conducted a review of all vacated surcharges since its 2008 entrance into the Massachusetts private passenger automobile market. The review resulted in premium refunds to consumers of \$46,635, plus \$7,521 interest at 6%. Further, the refunds made included the four above identified consumers as part of the 2011 activity testing. The fifth identified consumer's premium was adjusted during the initial 2013 policy term, thus a refund was not necessary. The Company is reviewing its monitoring procedures to ensure that premium refunds are timely processed for vacated surcharges and is providing guidance to staff about the new procedures. Finally, the Company states it will complete the required assessments and report the results to the Division as noted in the required actions.

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## COMPANY BACKGROUND

The Progressive insurance organization began business in 1937. The Progressive Corporation (“Progressive”), is a publicly-held insurance holding company formed in 1965, and currently has 54 subsidiaries, one mutual insurance company affiliate, and one limited partnership investment affiliate. Progressive’s insurance subsidiaries and mutual insurance company affiliate provide private passenger automobile, commercial automobile insurance and other specialty property-casualty insurance and related services. PRDRT began writing private passenger automobile business in Massachusetts in 2008 when managed competition rate regulations were promulgated. PRDRT markets and sells Massachusetts private passenger automobile and motorcycle coverages through its internet and telephone sales channel. PCIC primarily sells motorcycle, recreational vehicle, boat and commercial automobile coverages in Massachusetts to consumers through independent agents.

PRDRT and PCIC maintain a financial strength rating of A+ (Superior) from A.M. Best. The following financial information is as of, or for the year ended December 31, 2013:

Progressive Direct Insurance Company:

Admitted assets	\$4,724.2 million
Statutory surplus	\$1,433.3 million
Direct written premium	\$2,009.2 million
Massachusetts direct written premium	\$136.2 million

Progressive Casualty Insurance Company:

Admitted assets	\$5,772.4 million
Statutory surplus	\$1,543.1 million
Direct written premium	\$1,038.3 million
Massachusetts direct written premium	\$7.2 million

The key objectives of this examination were determined by the Division with emphasis on the following areas.

## I. COMPANY OPERATIONS/MANAGEMENT

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

<b>Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.</b>
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*Objective:* This Standard addresses the audit function and its responsibilities. See Standard VI-18 for underwriting and rating audits. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- Progressive's Board of Directors ("Board") is comprised of seven directors, including the Chairman, President and Chief Executive Officer; and six independent directors. Three independent directors comprise membership of the Audit Committee as required by 211 CMR 26.00.
- The Board assigns its risk oversight responsibilities to the Audit Committee, which oversees its Enterprise Risk Management program. The Audit Committee's responsibilities with respect to risk oversight include the review of the guidelines, policies, and procedures that govern how the Board assesses and manages exposure to risk. The Audit Committee meets periodically with leaders of the Risk Management Department, Compliance & Ethics Group, Law Department, Control & Analysis (internal audit) Department, Security and Information Technology groups, external auditor, and other business units. The Audit Committee also is responsible for reviewing Progressive's major operational, financial, reputational, and other risk exposures, as well as the steps management has taken to identify, monitor, assess, and manage or avoid such exposures. The Audit Committee meets at least quarterly and typically 10-12 times a year.
- Supervisors complete audits of three to five processing items for each Direct Sales Representatives ("DSR") and conduct audits of specific areas or attributes as needed. Also, the Company's Personal Lines Control Group conducts specific audits for required items such as delivery of the "Ways to Save Guide". Finally, the Company's Customer Relationship Management Group conducts periodic audits reviewing specific issues such as unlisted driver identification.
- The Company has established two levels of quality assurance ("QA") reviews within the New England Regional claims operation. First, supervisors and managers review the work of one of their subordinate claim adjusters each week. These reviews encompass a complete review of closed claims. In addition, targeted reviews of certain aspects of in-process claims are performed, such as listening to phone interviews or reviewing the adjuster's liability investigation. These QA reviews are used as a mentoring and coaching tool as well as a supervisory review to ensure Company policies and procedures are followed.
- The Company's second QA level includes a random selection of 50-70 closed claims files annually reviewed by managers and evaluated using criteria similar to audits routinely performed by the Company's Claims Audit Department ("CAD"). These QA results are documented and scored in checklists. Results are reported for each adjuster for use by claims management as part of the employee training and performance evaluation processes. The leader of CAD reports to the Company's Chief Financial Officer and once a year to the Audit Committee of the Board.



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- The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers (“CAR”) for compliance with statutes and CAR Rules of Operation. CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing automobile insurance 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: RNA interviewed Company personnel with responsibility for corporate governance, internal audit, compliance risk assessment and quality assurance audit processes. RNA reviewed the internal audit plan, several internal audit reports, minutes of Board of Directors meetings, underwriting and claim quality assurance results and recent CAR audits.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adopted policies and procedures to ensure that appropriate audits or reviews are conducted timely. Audit findings are monitored, and follow up audits are completed to ensure that findings are properly remediated.

Recommendations: None.

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

<b>Standard I-3. The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.</b>
--

Objective: This Standard addresses the effectiveness of the Company’s antifraud plan. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company’s antifraud efforts are coordinated through the Company’s Special Investigative Unit (“SIU”). Procedures require management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud, and to report potential fraud to the Massachusetts Insurance Fraud Bureau (“IFB”). The SIU is responsible for investigating claimant fraud, producer fraud and underwriting fraud.
- Claim adjusters receive training regarding fraud red flags, and also use judgment to make referrals to SIU. The Company’s SIU also conducts claim data mining using software to identify suspicious claims for possible further investigation. Any SIU findings are reported to claims supervisors at the conclusion of the SIU investigation. In cases where fraud is believed to have occurred, SIU will assist with criminal investigation and prosecution.

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- All prospective employees are subjected to a criminal background check prior to hiring.
- The Company's Code of Conduct and Conflict of Interest Policy are provided to all employees and also maintained on-line. All employees are asked to read them and acknowledge they have complied with these policies and procedures. Officers and Directors must annually complete a conflict of interest questionnaire and disclose any conflicts of interest.
- The Company has implemented Office of Foreign Asset Control ("OFAC") compliance initiatives including searches of the Specially Designated Nationals ("SDN") database for any policyholders, claimants, or vendors that might be included in the SDN database.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for antifraud initiatives, compliance procedures, Code of Conduct policies and prospective employee hiring. RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: The Company has adopted reasonable procedures related to antifraud initiatives, compliance procedures, Code of Conduct policies and prospective employee hiring. Based upon underwriting and claims testing, it appears that the Company has antifraud initiatives in place that are reasonably designed to detect, prevent and fully investigate fraudulent insurance acts.

Recommendations: None.

<b>Standard I-4. The regulated entity has a valid disaster recovery plan.</b>
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No work performed. All required activity for this Standard is included in the scope of the domiciliary state's statutory financial examination of the Company.

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

*Objective:* This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard and Standard I-6:

- PCIC primarily sells motorcycle, recreational vehicle, boat and commercial coverages in Massachusetts to consumers through independent agents. When a prospective agent is evaluated for appointment, PCIC obtains evidence of the applicant's producer license, loss history, confirmation of no felony convictions, and confirmation of the producer's errors and omissions insurance coverage of \$300,000 or more. The Company conducts criminal and financial background checks for prospective agents. The Company's agent agreements contain terms and conditions that address general authorities, duties, commission rates and compensation, premium submission, termination provisions, marketing material requirements, privacy, binding authority and general business procedures. PCIC also reserves the right to jointly service the agents' customers along with the agents. The independent agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- Certain claims litigation defense duties are outsourced to various law firms and attorneys. The Company monitors the performance of the law firms and attorneys conducting litigation defense duties.

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

*Transaction Testing Procedure:* RNA interviewed management about its use of third parties to perform Company functions. Further, RNA reviewed standard agent contracts and related documentation, as applicable, in connection with new and renewal business testing and claims testing.

*Transaction Testing Results:*

*Findings:* None.

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

*Recommendations:* None.

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

Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. RNA reviewed producer documentation that supports the new or renewal business sold and claims handling documentation during testing, as appropriate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the adequacy and accessibility of the Company's records. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has adopted record retention requirements for various documents and records.
- The record retention requirements include guidelines for management, maintenance and disposal of records, and the length of time specific documents must be retained.

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

Transaction Testing Procedure: RNA obtained a summary of the Company's record retention policies and procedures, and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

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Observations: The Company's record retention policies appear reasonable. Testing results relating to documentation evidence are also noted in the various examination standards.

Recommendations: None.

<b>Standard I-8. The regulated entity is licensed for the lines of business that are being written.</b>
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Objective: This Standard addresses whether the lines of business written by the Company are in accordance with the lines of business authorized by the Division. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard I-9. The regulated entity cooperates on a timely basis with examiners performing the examinations.</b>
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Objective: This Standard is concerned with the Company's cooperation during the course of the examination. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in conjunction with the review of this Standard and Standards I-11 through I-16:

- Company policy requires that the consumer privacy notice be provided to applicants when a new personal lines policy is issued. The consumer privacy notice is also annually provided to customers with personal lines renewal notices. Finally, the Company also provides the consumer privacy notice and the internet privacy policy on its website.
- Company policy allows for the sharing of personal financial and health information with affiliates and non-affiliates who provide services to the Company. The Company does not share information with other companies for marketing purposes, and thus, no opt out notice is required. Company policy is to disclose information as required or permitted by law to regulators, law enforcement agencies, antifraud organizations, and third parties who assist the Company in processing business transactions for its customers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy and information security compliance, reviewed documentation supporting its privacy and information security policies and procedures, and sought any evidence of improper privacy practices as part of personal lines underwriting and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and completion of underwriting and claims testing, the Company's privacy and information security practices appear to minimize any improper intrusion into individuals' privacy in accordance with the Company's policies and procedures.

Recommendations: None.

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

*Objective:* This Standard addresses whether the Company has developed and implemented written standards for the management of insurance information. This standard relates to privacy matters and is evaluated elsewhere in this section. See Appendix A for applicable statutes, regulations and bulletins.

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

*Objective:* This Standard addresses policies and procedures to ensure privacy of nonpublic personal information. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* See Standard I-10.

*Controls Reliance:* See Standard I-10.

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

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon RNA's review, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to inappropriate parties in conjunction with underwriting and claims testing.

*Recommendations:* None.

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

*Objective:* This Standard addresses the Company's practice of providing privacy notices to customers and consumers. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* See Standard I-10.

*Controls Reliance:* See Standard I-10.

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period, to test whether a consumer privacy notice was provided.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Company provides a sufficient consumer privacy notice to customers that discloses its treatment of non-public personal financial information.

Recommendations: None.

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

Objective: This Standard addresses policies and procedures with regard to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures including whether the Company uses opt out notices, and if so, how such notices are used.

Transaction Testing Results:

Findings: None.

Observations: The Company does not provide opt out notices to consumers as nonpublic personal financial information is not shared for marketing purposes.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's collection and use of nonpublic personal financial information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.



Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed underwriting and claims documentation for any evidence that the Company improperly collected, used or disclosed nonpublic personal financial information in conjunction with testing of underwriting and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review and testing in conjunction with underwriting and claims, the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses nonpublic personal financial information.

Recommendations: None.

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

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA also sought any evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing of underwriting and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of underwriting and claims.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information.
- The Company has adopted specific information technology controls such as user access controls and annual audits thereof, deployment of several virus prevention and detection tools, use of an encrypted file transfer protocol, and monthly processes to apply security patches to database servers and the Company's operating systems.
- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal financial and health information is located. Access is frequently and strictly monitored.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

**Standard I-18. All data required to be reported to departments of insurance is complete and accurate.**

Objective: This Standard is concerned with the Company's annual reporting of statutorily-required homeowners underwriting and claims data and the Market Conduct Annual Statement ("MCAS") personal lines data. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's policy administration and claims systems compile and retain underwriting and claims data for inclusion in MCAS.
- The Company reviews the draft MCAS for unusual items and makes changes to the draft MCAS as appropriate prior to submission of the MCAS to the NAIC.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA reviewed the 2013 MCAS data for unusual results and concerns.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's underwriting and claims processing and the 2013 private passenger automobile underwriting and claims data, no unusual results and concerns were noted, and the data reported in MCAS appears to be reasonably complete and accurate.

Recommendations: None.

## II. COMPLAINT HANDLING

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

**Standard II-1. All complaints are recorded in the required format on the regulated entity's complaint register.**

*Objective:* This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company defines a complaint as any written correspondence expressing a grievance or dissatisfaction about a product or service received from an insurance regulator or attorney general. Concerns expressed by phone and in writing when received directly by the Company are handled in operational areas and are not recorded on the Company's complaint register.
- Complaints are handled and coordinated by the Company's Consumer Relations Department. The Company's complaint handling procedures set forth guidelines for processing complaints. All complaints are forwarded to the Consumer Relations Department, which includes three managers, a Consumer Relations Quality Specialist, three Consumer Response Coordinators ("CRC") and 11 Consumer Relations Specialists ("CRS"). Once received, a CRC will research the nature of the complaint, assign a due date that conforms to states' requirements, and enter the complaints into the complaint database. The CRC refers claims complaints to a claims department contact, who is responsible for developing a response. All non-claim related complaints are assigned to a CRS, who researches the complaint and develops a response with business unit assistance as needed. CRS are assigned by state with one individual handling Massachusetts complaints. Upon receipt of responses from the business unit contacts, the CRS will review them for completion and accuracy, and when necessary, forward them to the Law Department for review. Once the complaint response is reviewed and finalized, the CRS will forward the response to the consumer, insurance department, or Better Business Bureau and complete the open elements in the complaint database.
- The Company's complaint register contains the regulatory complaint number, date received, date closed, complaint origin, line of business, complainant name, insured's name, claim or underwriting file number, operational function code, nature of complaint, and any additional remarks.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its web-site.
- The Company uses social media primarily as a means to promote brand awareness. Nevertheless, the Company monitors social media sites and refers any specific communications that can be identified as a complaint to the Consumer Relations Department for follow up within 24 hours and to obtain more information to address the complaint.
- The Company conducts post-claim payment surveys of all paid claimants by e-mail. First party claimants are surveyed using a net promoter score, and third party claimants are asked to rate their satisfaction in a range of 1-5. The survey results are summarized for management reporting. Any negative comments from respondents are addressed.
- The Company reviews all complaint activity for identification of any recurring, systemic or potential problems. Management reporting of complaint activity is provided monthly to senior

management and quarterly to a management compliance committee that periodically reports to the Company's Board of Directors.

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

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint registers for 2012-2014 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for 2013-2014 to determine whether they properly contained all Division complaints.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, the Company's complaint registers included all statutorily-required database elements. Also, the Company's complaint registers properly included all Division complaints.

Recommendations: None.

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

Objective: This Standard addresses whether the Company has adequate complaint handling procedures, and communicates those procedures to policyholders and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 25 regulatory and Company complaints from 2012-2014, to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether the Company's response to the complaint fully addresses the issues raised, and whether policyholders or consumers with similar fact patterns are treated consistently and fairly. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 25 regulatory and Company complaints from 2012-2014 to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints tested. Documentation for the complaints appeared complete, including the original complaints and related correspondence.

Recommendations: None.

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

Objective: This Standard addresses the time required for the Company to process each complaint. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 25 regulatory and Company complaints from 2012-2014, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

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Observations: The Company addressed the tested complaints within 14 days, as requested by the Division. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

### III. MARKETING AND SALES

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

<b>Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations.</b>
---

*Objective:* This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertising materials. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted as part of this Standard and Standard III-4:

- The Company uses various media including television, radio, internet and direct mail to sell the Company's products. The Company primarily uses national television advertising developed by an outside vendor, but radio and direct mail ads may be tailored to specific regions or states. All advertising is reviewed and approved by the Law Department prior to use and tracked in a database. Data cited in advertising is required to be less than 18 months old, to ensure communication of the most current available data. Any marketing and sales information that is provided to PCIC agents is also approved by the Law Department. The Company has a marketing relationship with Harley Davidson, which often recommends the Company to consumers when they consider purchasing motorcycle coverage.
- In accordance with the Fair Credit Reporting Act ("FCRA"), direct mail marketing lists are used from consumer credit reporting agencies using Vantage Score credit scores, which are a combination of the three major consumer credit reporting agencies' credit scores. Also, selected age groups and geographic criteria are used to create the direct mail lists. The direct mail pieces are circulated to prospective customers with a firm offer of insurance as required by the FCRA. The Company does not use credit or insurance scores to underwrite or rate policies.
- The Company maintains a sales materials and advertising log to track all such materials.
- The Company discloses its name and address on its website.

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

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for reviewing, approving and maintaining sales and advertising materials, and obtained supporting documentation. RNA selected three sales materials utilized during the examination period and reviewed them for accuracy and reasonableness. Further, RNA reviewed selected direct marketing materials with names obtained from FCRA marketing lists to ensure that the direct marketing materials are in compliance with FCRA requirements. RNA also reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed any sales and marketing materials noted as part of new and renewal business testing for any evidence of use of unapproved sales and marketing materials.

*Transaction Testing Results:*

*Findings:* None.



Observations: All sales materials reviewed appeared accurate and reasonable and in compliance with FCRA requirements. Also, the Company's website disclosure complies with Division requirements. Finally, RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

<b>Standard III-2. Regulated entity internal producer training materials are in compliance with applicable statutes, rules and regulations.</b>
---

Objective: This Standard is concerned with whether the Company's producer training materials are in compliance with state statutes, rules and regulations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted as part of this Standard and Standard III-3:

- PRDRT markets and sells Massachusetts private passenger automobile and motorcycle coverages through its internet and phone sales channel. PRDRT has a customer service team of 240 DSRs, who are licensed producers and appointed agents to serve Massachusetts customers. In addition, a small process team of licensed producers and appointed agents makes transactional and endorsement policy changes at the customer's request.
- PRDRT's DSR employment applicants generally do not have insurance sales experience. Once hired by the Company for the DSR position, the Company provides five weeks of training to allow the employee to pass the Division's producer license examination. Once the license examination is passed, and the employee's producer license is issued by the Division, the producer is appointed as agent by the Company. Once appointed, the agent receives ten to fourteen weeks of training and coaching on the Company's policies, procedures and products. In addition, seven hours of Massachusetts-specific training is provided prior to the DSR selling coverage. The Company tracks and monitors the DSR's producer license, appointments and continuing education credits for compliance with Massachusetts requirements.
- PCIC primarily sells motorcycle, recreational vehicle, boat and commercial coverages in Massachusetts to consumers through independent agent. Independent agency relationships are managed by the Company's New England Regional Sales Manager, who oversees several Account Sales Representatives. The Account Sales Representatives regularly visit agencies to provide guidance and training on new products, sales assistance and loss ratio improvement.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing DSR and agent training materials to understand the nature and breadth of the Company's producer training. RNA requested and reviewed evidence that six DSRs met Massachusetts continuing education requirements.

Transaction Testing Results:

Findings: None.

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PROGRESSIVE CASUALTY INSURANCE COMPANY

Observations: Based upon review, the Company's producer training process and producer communications appear adequate and reasonable. RNA noted no evidence of unreasonable producer communications as part of new and renewal business testing. The Company appears to be properly monitoring continuing education compliance for its DSRs.

Recommendations: None.

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

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing DSR and independent agent communications to understand the nature and breadth of such communications. RNA reviewed DSR and independent agent communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, procedures for agent communications appear appropriate and reasonable. RNA noted no evidence of unreasonable DSR and agent communications as part of new and renewal business testing.

Recommendations: None.

<b>Standard III-4. The regulated entity's mass marketing of property/casualty insurance is in compliance with applicable statutes, rules and regulations.</b>
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No work performed. This Standard is not covered in the scope of examination as the Company does not sell group coverage.

#### 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.

<b>Standard IV-1. Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.</b>
---

*Objective:* The Standard addresses licensing and appointment of the Company's producers. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard and Standard IV-4:

- PRDRT markets and sells Massachusetts private passenger automobile and motorcycle coverages through its internet and phone sales channel. PRDRT has a customer service team of approximately 240 DSRs, who are licensed producers and appointed agents to serve Massachusetts customers. In addition, a small process team of licensed producers and appointed agents makes transactional and endorsement policy changes at the customer's request.
- PRDRT's DSR employment applicants generally do not have insurance sales experience. Once hired by the Company for the DSR position, the Company provides five weeks of training to allow the employee to pass the Division's producer license examination. Once the examination is passed, and the employee's producer license is issued by the Division, the producer is appointed as agent by the Company through the Division's On-Line Producer Appointment ("OPRA") system. Once appointed, the agent receives ten to fourteen weeks of training and coaching on the Company's policies, procedures and products. In addition, seven hours of Massachusetts-specific training is provided prior to the DSR selling coverage. The Company tracks and monitors the DSR's producer license, appointments and continuing education credits for compliance with Massachusetts requirements.
- PCIC primarily sells motorcycle, recreational vehicle, boat and commercial coverages in Massachusetts to consumers through independent agents. When a prospective agent is evaluated for appointment, PCIC obtains evidence of the applicant's producer license, loss history, confirmation of no felony convictions, and confirmation of the producer's errors and omissions insurance coverage of \$300,000 or more. The Company conducts criminal and financial background checks for prospective agents. The Company's agent agreements contain terms and conditions that address general authorities, duties, commission rates and compensation, premium submission, termination provisions, marketing material requirements, privacy, binding authority and general business procedures. PCIC also reserves the right to jointly service the agents' customers along with the agents. The independent agents are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company uses the Division's OPRA system to process independent agent appointments and terminations. The Company reconciles its independent agent appointment data with OPRA data monthly when licensing renewals occur, and has access to the NAIC's NIPR Alert to identify additional licensing changes. Differences in licensing and appointment data are to be researched and addressed as appropriate.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer recruitment, hiring and DSR agent appointment processing. RNA also interviewed individuals with responsibility for producer contracting and independent agent appointment processing. RNA selected 21 private passenger automobile and motorcycle policies issued or renewed during the examination period, to determine whether the DSR or independent agent involved in these sales were included on the Division's list of the Company's appointed agents. Also, as part of the agent appointment termination testing, we reviewed any unusual appointment information.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's DSRs and independent agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA system.

Recommendations: None.

<b>Standard IV-2. The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.</b>
---

Objective: The Standard addresses licensing and appointment of the Company's producers and continuing education requirements. See Standard IV-1 for testing of producer licensing and agent appointment. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for DSR recruitment, hiring, agent appointments and continuing education. RNA requested and reviewed evidence that six DSRs met Massachusetts continuing education requirements. RNA also interviewed individuals with responsibility for independent agent contracting, appointments and terminations. RNA reviewed the standard independent agent contract for responsibility related to agent continuing education compliance.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's DSR's are maintaining compliance with the Division's producer continuing education requirements. Further, independent agents are solely responsible for monitoring and maintaining compliance with the Division's producer continuing education requirements.

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.**

Objective: This Standard addresses the Company's termination of agents in accordance with applicable statutes requiring notification to the Division and the agent. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standards IV-4 and IV-5:

- Massachusetts DSR terminations occur as a result of employee departures and internal job transfers and are reported to the Division within the required time frame through OPRA.
- The Company's policy is to give additional information to the Division about DSRs whose appointments are terminated "for cause" including the reason for the termination.
- The Company's independent agent appointment terminations are generally due to lack of production or profitability, or at the request of the agent. The Company's policy is to give required written notice to all agents whose appointments are terminated. The termination date reported in the OPRA system by the Company is the date of the agent's notice, which states that new business from that agent will no longer be accepted.
- The Company uses the Division's OPRA system to process independent agent appointments and terminations.
- The Company's policy is to give additional information to the Division about independent agents whose appointments are terminated "for cause" including the reason for the terminations.
- The Company reconciles its independent agent appointment data with OPRA data monthly when licensing renewals occur, and has access to the NAIC's NIPR Alert to identify additional licensing changes. Differences in licensing and appointment data are to be researched and addressed as appropriate.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for DSR supervision and agent appointment termination processing. RNA also interviewed individuals with responsibility for independent agent contracting, appointment and termination processing. RNA selected 15 individual and 11 business entity appointment terminations from the Company's data and compared that to corresponding information in the Division's OPRA system. Finally, RNA reviewed evidence that notices to agents and the Division complied with applicable statutory requirements and Company policy.

Transaction Testing Results:

Findings: For one agency appointment termination, written notice to the agency was not provided 180 days in advance of the termination in accordance with M.G.L. c. 175, § 163.

Observations: For the appointment terminations tested, except as noted above, the Company properly notified the agents about the terminations, as applicable, and the Division through the OPRA system, in compliance with statutory requirements.

**Required Actions:** The Company shall ensure that it provides written notice of terminations to independent agents at least 180 days in advance of the termination, except in the case of "for cause" terminations.

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

**Objective:** The Standard addresses the Company's policy for ensuring that agent appointments and terminations do not unfairly discriminate against policyholders. See Appendix A for applicable statutes, regulations and bulletins.

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

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

**Transaction Testing Procedure:** RNA interviewed individuals with responsibility for DSR supervision and agent appointment termination processing. RNA also interviewed individuals with responsibility for independent agent contracting, appointment and terminations. In conjunction with testing of private passenger automobile and motorcycle policies issued or renewed during the examination period where an agent was involved, and testing of 15 individual and 11 business entity agent appointment terminations, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's agent appointment and termination policies.

**Transaction Testing Results:**

**Findings:** None.

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

**Recommendations:** None.

<b>Standard IV-5. Records of terminated producers adequately document the reasons for terminations.</b>
---

**Objective:** The Standard addresses the Company's documentation of the reasons for agent terminations. See Appendix A for applicable statutes, regulations and bulletins.

**Controls Assessment:** See Standard IV-3.

**Controls Reliance:** See Standard IV-3.

**Transaction Testing Procedure:** RNA interviewed individuals with responsibility for DSR and independent agent appointment termination processing. RNA selected 15 appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any DSR or independent agent that was terminated "for cause" during the examination period.

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Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's internal records adequately document reasons for appointment terminations. No DSR or independent agent appointment terminations "for cause" were noted.

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of examination because the Company direct bills most premium, and agent advances are not provided. Thus, excessive debit account balances are not a significant issue.

## 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.

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

*Objective:* This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's billing frequency includes payment in full at inception, or in monthly installments. Payments are accepted using a check, electronic funds transfer, or electronic payment with a credit card or check via the phone or the internet. For new business, a down payment of 16% - 60% is generally required.
- For billed installments, the initial bill is sent approximately 20 days prior to the due date. If the installment is unpaid, the Company will issue a cancellation notice three days after the due date, and the cancellation will be effective after 23 days. Once the policy is canceled, a notice is sent to the consumer.
- The Company has developed standards for billing and collections, and monitors compliance with those standards.
- Reinstatements for policies cancelled for non-payment may be offered to former insureds within 14 days of cancellation, if the former insured verbally confirm they have not been involved in an accident since the cancellation effective date.

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

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing.

*Transaction Testing Results:*

*Findings:* None.

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

*Recommendations:* None.



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

*Objective:* This Standard is concerned with whether the Company has procedures to ensure that policyholder cancellation requests are processed timely. Policy issuance testing is included in Standard VI-6. Return of premium testing is included in Standard V-7. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard and Standard V-7:

- Company policy is to process insured-requested policy cancellations and applicable premium refunds in a timely manner. Policy cancellation requests from insureds are generally made through a DSR, who can be accessed through the Company's 800 telephone number or through the internet chat feature. PCIC insureds may also contact their agent for cancellation processing.
- The Company refunds unearned premium to policyholders on a pro-rata or short rate basis, pursuant to statutory and regulatory guidelines.
- Automobile policyholders may cancel their policy only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service, or evidence that they have moved out of Massachusetts.
- The Company has developed performance standards and goals for the telephone service department, and the Company monitors service levels for customer service representatives and DSRs. Results are provided to management. In addition, supervisors frequently listen to service calls and provide performance improvement feedback. Management also monitors various IT-related controls that impact service to customers on the Company's website.

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

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for policyholder service and tested 10 private passenger automobile and motorcycle insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon testing, the insured-requested cancellations were processed accurately and timely.

*Recommendations:* None.

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

Objective: This Standard addresses the Company's procedures for providing timely and responsive information to customers by the appropriate department. Complaints are covered in the Complaint Handling section, and claims are covered in the Claims section. See Appendix A for applicable statutes, regulations and bulletins.

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

- Customer service representatives and DSRs answer general questions or correspondence about the policyholder's policy or premium billing and can make policy changes or billing changes. PCIC insureds may also contact their agent with general questions or correspondence about premium billing or policy changes.
- The Company has developed performance standards and goals for customer service and policy changes.
- The Company has developed performance standards and goals for the telephone service department, and the Company monitors service levels for customer service representatives and DSRs. Results are provided to management. In addition, supervisors frequently listen to service calls and provide performance improvement feedback. Management also monitors various IT-related controls that impact service to customers on the Company's website.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed correspondence in conjunction with underwriting, rating and policyholder service standards. Additionally, RNA obtained documentation showing customer service correspondence in conjunction with new and renewal business and claims testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon the review of the above information and review of general correspondence between policyholders and the Company regarding underwriting, rating, and policyholder service matters, it appears that the Company has adequate resources and procedures to handle customer inquiries. Correspondence directed to the Company appears to be answered in a timely and responsive manner.

Recommendations: None.

**Standard V-4. Whenever the regulated entity transfers the obligations of its contracts to another regulated entity pursuant to an assumption reinsurance agreement, the regulated entity has gained the prior approval of the insurance department and the regulated entity has sent the required notices to affected policyholders.**

No work performed. The Company does not enter into assumption reinsurance agreements.

**Standard V-5. Policy transactions are processed accurately and completely.**

*Objective:* This Standard addresses procedures for the accurate and complete processing of policy transactions. Objectives pertaining to policy issuance, renewals and endorsements are included in Standard VI-6. Billing transactions are reviewed in Standard V-1. Insured-requested cancellations and return of premium are tested in Standard V-2. Company-initiated cancellations and non-renewals are tested in Standard VI-8. See Appendix A for applicable statutes, regulations and bulletins.

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

*Objective:* This Standard addresses efforts to locate missing policyholders or beneficiaries, and to comply with escheatment and reporting requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires that un-cashed checks, including claims and premium refunds be reported and escheated when the owner cannot be located.
- The Company's accounting department monitors un-cashed checks and segregates those for potential escheatment for tracking and monitoring purposes. Shortly prior to escheatment, a final letter is sent to the last known address of the payee to notify the payee the amount to be escheated. Once these efforts are exhausted, the funds are deemed abandoned property and escheated.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.
- The Company researches returned mail such as policies, required notices, and billing notices. The Company attempts to reach the customer via email to request an updated mailing address. Additionally, the claims department researches returned benefit checks and uses information in claims and policy files to locate a better address.

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

*Transaction Testing Procedure:* RNA discussed the Company's procedures for locating missing policyholders and claimants and escheating funds. RNA also reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas. Finally,

RNA reviewed the 2012 and 2013 escheatment filings with the Massachusetts State Treasurer.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company appears to report unclaimed items and escheat them as required by statute. The Company also appears to have processes for locating missing policyholders and claimants, and appears to make efforts to locate such individuals.

Recommendations: None.

**Standard V-7. Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.**

Objective: This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled. See Standard V-2 for review and testing of the calculation and return of unearned premium. See Appendix A for applicable statutes, regulations and bulletins.

**Standard V-8. Claims history and loss information is provided to the insured in timely manner.**

Objective: This Standard addresses the Company's procedures to provide history and loss information to insureds in a timely manner. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's claims personnel and independent agents have access to policyholders' claims history and paid loss information.
- The Company's policy is to directly provide a policyholder with his or her claims history and paid loss information 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: RNA discussed with Company personnel its policies and procedures for responding to policyholder inquiries regarding claims history and paid loss information. Further, RNA reviewed claim documentation for any evidence of the Company being non-responsive to policyholder inquiries on claim history and paid loss information in testing of underwriting and rating, claims, complaints and policyholder service.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

## VI. UNDERWRITING AND RATING

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

<b>Standard VI-1. The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity's rating plan.</b>
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*Objective:* This Standard addresses whether the Company is charging premiums using properly filed rates. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard and Standards VI-4 and VI-10:

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- PRDRT private passenger automobile and motorcycle applications are taken on the phone or submitted electronically, and the standard form for this application is approved by the Division. The Company's underwriting and policy administration systems are used for quoting and rating policy applications.
- PCIC primarily sells motorcycle, recreational vehicle, boat and commercial coverages in Massachusetts to consumers through independent agents. The PCIC independent agents electronically submit new business and endorsement information. PCIC also has the right to directly service the independent agents' customers. The standard forms for the applications are approved by the Division.
- Personal lines rates are filed with the Division and approved prior to use. All approved rates are loaded in the Company's underwriting and policy administration systems and are tested prior to use.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- Private passenger automobile and motorcycle underwriting criteria include license status, driving history, and driver experience, among other factors. The Company does not use credit or insurance scores in private passenger automobile and motorcycle underwriting or rating.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents and ensures that at-fault drivers are appropriately surcharged for such accidents. Surcharged drivers are notified of the right to appeal the surcharge. The Company identifies vacated surcharges and completes processing for those transactions.
- Private passenger automobile and motorcycle rates are based on the Company's own loss experience data and the Company's competitive analysis of market rates. The Company uses industry standard motorcycle rating symbols to determine the premiums for optional collision and comprehensive coverages.
- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules of Operation.
- PRDRT management monitors new business processing activity by accumulating and reporting statistics and key performance indicators, such as days to issue the policy and unprocessed transactions. In addition, DSR call and chat activity is supervised and monitored. Supervisors complete audits of three to five processing items for each DSR and conduct audits of specific

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areas or attributes as needed. Also, the Company's Personal Lines Control Group conducts specific audits for required items such as delivery of the "Ways to Save Guide". Finally, the Company's Customer Relationship Management Group conducts periodic audits reviewing specific issues such as unlisted driver identification.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period, to test rate classifications and underlying policy information. From these test selections, RNA selected 10 private passenger automobiles policies and verified that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate. RNA also selected 20 motorcycle policies to test rates charged and valuations used for comprehensive and collision coverages.

RNA tested 50 vacated 2011 at-fault accident determinations by the Board of Appeal plus an additional 25 vacated 2013 at-fault accident determinations by the Board of Appeal for accurate and timely reversal of premium surcharges. Additionally, during private passenger automobile claims testing, RNA assessed whether at-fault accidents were properly reported to the Merit Rating Board with appeal notices timely provided to operators in accordance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: RNA testing of 2011 activity indicated that vacated surcharges by the Board of Appeal for four consumers were not timely reversed in accordance with Division Bulletin 2010-11. Also, RNA testing of 2013 activity indicated that a vacated surcharge by the Board of Appeal for one consumer was not timely reversed in accordance with Division Bulletin 2010-11.

Observations: Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that the Company properly determined policy premiums using rating symbols for optional collision and comprehensive coverages. Testing also noted that at-fault accident determinations were timely reported to the Merit Rating Board, and appeal notices were properly provided to at-fault operators. In addition, except as noted above, testing of 2011 and 2013 vacated surcharges indicated that vacated surcharges by the Board of Appeal were properly and timely reversed in accordance with statutory and regulatory requirements.

Required Actions: The Company shall review monitoring controls to ensure that all vacated surcharges by the Board of Appeal are timely and properly processed within 30 days, make any necessary process changes, and provide the appropriate training to staff to ensure timely processing. The Company shall complete an independent assessment of the effectiveness of the vacated surcharge reversal monitoring procedures by June 30, 2015, or another agreed upon date, and report the results of the assessment to the Division. Finally, the Company shall adopt a new procedure to complete an annual review and comparison of their vacated surcharge data with data directly obtained from the Board of Appeal.

*Subsequent Company Actions:* During 2013, the Company conducted a review of all vacated surcharges since its 2008 entrance into the Massachusetts private passenger automobile market. The review resulted in premium refunds to consumers of \$46,635, plus \$7,521 interest at 6%. Further, the refunds made included the four above identified consumers as part of the 2011 activity testing. The fifth identified consumer's premium was adjusted during the initial 2013 policy term, thus a refund was not necessary. The Company is reviewing its monitoring procedures to ensure that premium refunds are timely processed for vacated surcharges and is providing guidance to staff about the new procedures. Finally, the Company states it will complete the required assessments and report the results to the Division as noted in the required actions.

<b>Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.</b>
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*Objective:* This Standard addresses whether all mandated disclosures for rates and coverages are timely provided to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system's controls are designed to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company's insurance policies provide disclosures as required by statutory and regulatory guidelines.
- The Company provides private passenger automobile information guides to consumers.

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

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon testing, the Company provides required coverage disclosures to insureds upon initial application and renewal, in accordance with its policies, procedures, and statutory requirements.

*Recommendations:* None.



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

*Objective:* This Standard addresses illegal rebating, commission cutting or inducements, and requires that producer commissions adhere to the commission schedule. See Appendix A for applicable statutes, regulations and bulletins.

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

- PRDRT's DSRs are compensated with a base salary with potential for incentive compensation based on productivity, accuracy, timeliness, and other metrics.
- Performance monitoring and disciplinary actions for employee agents are handled in accordance with the Company's human resource management processes.
- PCIC has procedures for paying commissions to producers in accordance with written contracts.
- PCIC's producer contracts, policies and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

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

*Transaction Testing Procedure:* RNA interviewed individuals with responsibility for producer licensing, agent appointment, and producer compensation. In connection with the review of producer contracts, RNA inspected new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or improper inducements. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period for indications of rebating, commission cutting or improper inducements.

*Transaction Testing Results:*

*Findings:* None.

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

*Recommendations:* None.

**Standard VI-4. The regulated entity underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.**

*Objective:* This Standard addresses whether unfair discrimination is occurring in insurance underwriting, primarily related to rating. See Standard VI-1 for testing of premium rating, Standard VI-7 for testing of declinations and Standard VI-8 for testing of company-initiated cancellations and non-renewals. See Appendix A for applicable statutes, regulations and bulletins.

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

*Objective:* This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in review of this Standard and Standard VI-19:

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses a modified version of the Automobile Insurance Bureau of Massachusetts (“AIB”) Private Passenger Automobile Form, which has been approved by the Division.
- Approved forms and endorsements are required to be used when providing quotes to customers.

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

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon testing, the Company is using approved policy forms and endorsements in compliance with its policies, procedures, and statutory requirements.

*Recommendations:* None.

**Standard VI-6. Policies, riders and endorsements are issued or renewed accurately, timely and completely.**

*Objective:* This Standard addresses whether the Company issues policies and endorsements timely and accurately. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company’s underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- The Company does not require private passenger automobile physical damage inspections for new applicants, in accordance with the Company’s Division approved underwriting and rating plan.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely.

Recommendations: None.

<b><u>Standard VI-7. Rejections and declinations are not unfairly discriminatory.</u></b>
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Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements. The Company uses automated underwriting guidelines designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- If a consumer or producer completes the automated private passenger automobile or motorcycle application process, the Company does not decline or reject the applicant.

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

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

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, no private passenger automobile or motorcycle applications completed during the examination period were declined by the Company.

Recommendations: None.

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

Objective: This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before expiration for cancellations and non-renewals. Declination procedures are reviewed in Standard VI-7. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company-initiated cancellations of private passenger automobile and motorcycle policies for underwriting reasons are a result of driver license suspension, vehicle registration violations or material misrepresentation, with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder at least 23 days prior to the cancellation effective date.
- Company cancellations for non-payment of premium are provided at least 20 days prior to the cancellation effective date.
- Written non-renewal notices for unacceptable risks are provided to policyholders at least 45 days prior to the non-renewal effective date. The notices state the specific reason for the non-renewal.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected all of the Company's 13 private passenger automobile and motorcycle company-initiated cancellations for testing. In addition, RNA selected 50 private passenger automobile and motorcycle non-renewals for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether decisions to rescind and cancel coverage are made appropriately. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company states that, although quite rare, rescissions may be given only for significant material misrepresentations or fraud, and only with approval of the General Counsel.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and inquired about procedures for issuing rescissions.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, policies and procedures for rescissions appear reasonable.

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in the application of premium discounts and surcharges. See Standard VI-1 for testing of premium rating. See Appendix A for applicable statutes, regulations and bulletins.

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

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

**Standard VI-12. Verification of use of the filed expense multipliers; the regulated entity should be using a combination of loss costs and expense multipliers filed with the insurance department.**

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

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

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

**Standard VI-14. Verification of experience modification factors.**

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

**Standard VI-15. Verification of loss reporting.**

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

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

No work performed. This Standard is not covered in the scope of examination as the examination was primarily focused on personal lines business.

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

*Objective:* This Standard addresses whether underwriting, rating and classification decisions are based on adequate information developed at or near inception of the coverage, rather than near expiration or following a claim. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- The Company uses automated underwriting guidelines designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- PRDRT management monitors new business processing activity by accumulating and reporting statistics and key performance indicators, such as days to issue the policy and unprocessed transactions. In addition, DSRs' call and chat activity is supervised and monitored. Supervisors complete audits of three to five processing items for each DSR and conduct audits of specific areas or attributes as needed.
- Independent agency relationships are managed by the Company's New England Regional Sales Manager who oversees several Account Sales Representatives. The Account Sales Representatives regularly visit agencies to provide guidance and training on new products, sales assistance and loss ratio improvement.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage. RNA also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company is using underwriting, rating and classification guidelines based on adequate information developed at or near inception of coverage.

Recommendation: None.

<b>Standard VI-18. Audits, when required, are conducted accurately and timely.</b>
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Objective: This Standard addresses whether audits are conducted accurately and timely. See Standard I-1 for external audits, internal audits and quality assurance audits within the Company's operational areas. See Appendix A for applicable statutes, regulations and bulletins.

**Standard VI-19. All forms and endorsements, forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).**

*Objective:* This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Standard VI-5 for testing. See Appendix A for applicable statutes, regulations and bulletins.

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

*Objective:* This Standard addresses whether the Company verifies that the VIN and vehicle symbol submitted with the application is valid and accurate. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's DSRs and producers are responsible for obtaining the VIN and vehicle symbol when the applications are completed.
- The Company's underwriting system compares the VIN and vehicle symbol to electronic databases to ensure that both are accurate.

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

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

*Transaction Testing Results:*

*Findings:* None.

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

*Recommendations:* None.



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

Objective: This Standard addresses whether the Company has engaged in any collusive or anti-competitive underwriting practices. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- PRDRT management monitors new business processing activity by accumulating and reporting statistics and key performance indicators, such as days to issue the policy and unprocessed transactions. In addition, DSRs' call and chat activity is supervised and monitored. Supervisors complete audits of three to five processing items for each DSR and conduct audits of specific areas or attributes as needed.
- Independent agency relationships are managed by the Company's New England Regional Sales Manager who oversees several Account Sales Representatives. The Account Sales Representatives regularly visit agencies to provide guidance and training on new products, sales assistance and loss ratio improvement.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's underwriting policies and practices do not appear to be collusive or anti-competitive.

Recommendations: None.

**Standard VI-22. The regulated entity underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations in application of mass marketing plans.**

No work performed. This Standard is not covered in the scope of examination as the Company does not sell group coverage.

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

No work performed. This Standard is not covered in the scope of examination as the Company does not sell group coverage.

**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.**

*Objective:* This Standard addresses notices to policyholders for company-initiated cancellations and non-renewals, including advance notice before policy expiration. See Standard VI-8 for testing of this Standard. See Appendix A for applicable statutes, regulations and bulletins.

**Standard VI-25. All policies are correctly coded.**

*Objective:* This Standard addresses the accuracy of statistical coding. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that certain coding elements reported by the producers are correct and current.
- The Company has a process to correct data coding errors and to make subsequent changes, as needed.
- The Company has policies and procedures to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB and CAR.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.
- PRDRT management monitors new business processing activity by accumulating and reporting statistics and key performance indicators, such as days to issue the policy and unprocessed transactions. In addition, DSRs' call and chat activity is supervised and monitored. Supervisors complete audits of three to five processing items for each DSR and conduct audits of specific areas or attributes as needed.
- Independent agency relationships are managed by the Company's New England Regional Sales Manager, who oversees several Account Sales Representatives. The Account Sales

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Representatives regularly visit agencies to provide guidance and training on new products, sales assistance and loss ratio improvement.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and the statistical reporting process. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, premium data determinants appear to be properly coded.

Recommendations: None.

<b>Standard VI-26. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation supports underwriting decisions made.</b>
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Objective: This Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- The Company's DSRs and agents are responsible for completing and retaining applications for new business and obtaining information needed to properly underwrite and rate the policies.
- PRDRT management monitors new business processing activity by accumulating and reporting statistics and key performance indicators, such as days to issue the policy and unprocessed transactions. In addition, DSRs' call and chat activity is supervised and monitored. Supervisors complete audits of three to five processing items for each DSR and conduct audits of specific areas or attributes as needed.
- Independent agency relationships are managed by the Company's New England Regional Sales Manager, who oversees several Account Sales Representatives. The Account Sales Representatives regularly visit agencies to provide guidance and training on new products, sales assistance and loss ratio improvement.

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.

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 45 private passenger automobile and motorcycle policies issued or renewed during the examination period to test for properly completed new business applications and adequate underwriting documentation. RNA also sought evidence of complaints related to unusual underwriting decisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and policy files adequately supported the Company's decisions. No evidence of complaints related to unusual underwriting decisions was noted.

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 regulated entity with the claimant is within the required time frame.**

*Objective:* This Standard addresses the timeliness of the Company's initial contact with the claimant. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's Massachusetts claims handling is part of the Company's New England Regional reporting structure that includes claims offices in Westwood, Woburn and Indian Orchard, Massachusetts. The Westwood office is a full service claim center, where a customer may leave his or her vehicle and obtain a rental vehicle. When the vehicle repairs are complete, the customer may pick up his or her vehicle, and return the rental vehicle to the same office.
- The Company's Massachusetts claims staff of approximately 113 employees is organized in three functional units responsible for field appraisals, physical damage/first party liability claims, and third party injury claims. All personal injury protection claims for the New England Region are handled in the Company's Albany office. Nationally centralized claim functions include first notice of loss intake and reporting, a fast track claims unit for small or quickly settled claims, and subrogation. Glass and automobile rental claims are outsourced to national vendors. Independent adjusters are rarely utilized.
- The claims handling employees are organized in teams with a supervisory structure to ensure that claims settlement authorities and Company procedures are followed. The Company's claim system provides end-to-end processing including full financial processing, claims activities, notes and a claims history. The system includes Massachusetts-related business rules and also includes electronic document storage and retrieval capabilities.
- Written policies and procedures govern claims handling processes. Claims are generally reported through the Company's 800 phone number, by fax, or email. A claim number is established, and key information, such as the claimant's name, policyholder information, policy number, accident date, location, and extent of injuries are obtained and recorded in the claims system.
- Claims adjusters are to contact the claimants the same day or the next business day. Claims are investigated to determine existence of coverage, and then an initial liability determination is made. Field appraisers are dispatched for automobile physical damage and collision claims. Also, the Company has established an approved repair shop program pursuant to 211CMR 56.04.
- The Company uses the Insurance Services Office Claims Outcome Advisor software to assess damages on bodily injury claims, but only as a guide to assist the adjuster with estimating bodily injury reserving and settlement. The software only includes Company's Massachusetts bodily injury claim settlement data. Individual claim settlement authority limits are assigned to adjusters commensurate with their experience, and unit managers must periodically review each bodily injury claim on a risk-assessed basis. The claim system also has built-in intervention triggers that prompt supervisors to review claim activity when certain parameters are met.
- Company policy is to comply with claim settlement performance standards established by CAR and those set forth in statute. The Company is subject to audits from CAR for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and

paying a claim. The Company follows standard industry and CAR claim handling guidelines in its claim investigations including Massachusetts standards of fault. Information from police reports, witness statements, photographic evidence and consumer reporting agencies are used to evaluate the claim.

- The Company requires that at-fault accident drivers receive notices of their at-fault accident surcharges and their right to appeal these determinations. Surcharges appealed and vacated by the Division's Board of Appeal are to be reversed timely by the Company. The Company does not report at-fault accident determinations to consumer reporting agencies.
- Company policy is to comply with CAR's SIU performance standards. Claim adjusters are provided training regarding SIU red flags and make referrals to SIU as needed. Automobile theft claims are reported through the Insurance Services Office to the National Insurance Crime Bureau. The SIU is responsible for coordinating with the IFB, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution.
- The Company has implemented OFAC compliance initiatives including searches of the SDN database for any policyholders, claimants, or vendors that might be included in the SDN database.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise. Department of Revenue checks are performed as required by statute and are documented in the claim files. Also, underwriting risk referrals are made to the underwriting department as necessary.
- No liability release is required from insureds unless the claim involves those who were underinsured or not insured. Third party property damage claimants are generally not required to sign a liability release unless there is a settlement dispute or general damages awarded. Releases are routinely required from third party bodily injury claimants.
- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database, and reports required claims to the Merit Rating Board as required in Massachusetts.
- Criteria for unit managers' periodic reviews of the adjusters' work have been established, and such reviews are documented in the claims systems. From the claims system data, the Company produces metric reports for the daily, weekly and monthly claims reporting of key service and quality metrics.
- The Company has established two levels of QA reviews within the New England Regional claims operation. First, supervisors and managers review the work of one of their subordinate claim adjusters each week to evaluate customer engagement and review the adjuster's coverage and liability investigations. These QA reviews are used as a mentoring and coaching tool as well as a supervisory review to ensure Company policies and procedures are followed.
- The Company's second QA level includes a random selection of 50-70 closed claims files annually reviewed by managers and evaluated using criteria similar to audits routinely performed by the Company's Claims Audit Department. These QA results are documented and scored in checklists. Results are reported for each adjuster for use by claims management as part of the employee training and performance evaluation processes.
- The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation. Daily claim statistical data is accumulated through the claim system, and summary data is provided monthly by the Company to CAR. Any claim statistical errors exceeding standard CAR tolerance levels must be corrected.
- The Company conducts post-claim payment surveys of all paid claimants by e-mail. First party claimants are surveyed using a net promoter score, and third party claimants are asked to rate their satisfaction level. The survey results are summarized for management reporting. Any negative comments from respondents are addressed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was processed according to the Company's policies and procedures, with timely initial contact from the Company. Based upon testing, it appears that the Company's processes for providing timely initial contact with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

<b><u>Standard VII-2. Timely investigations are conducted.</u></b>
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Objective: The Standard addresses the timeliness and completeness of the Company's claim investigations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was timely reported and investigated according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for timely investigating claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

Objective: The Standard addresses the timeliness of the Company's claim settlements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company's processes for timely resolving claims are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

**Standard VII-4. The regulated entity responds to claim correspondence in a timely manner.**

Objective: The Standard addresses the timeliness of the Company's response to claim correspondence. See Standard VII-6 for testing of statutorily-required claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA tested each selected claim noting whether the Company timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company timely responded to claim correspondence. Based upon testing, it appears that the Company's processes for timely responding to claims correspondence are functioning in accordance with its policies, procedures



and statutory requirements. The Company also addresses negative comments received on written post-claim payment surveys, and the comments are summarized for management reporting.

Recommendations: None.

<b>Standard VII-5. Claim files are adequately documented.</b>
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Objective: The Standard addresses the adequacy of information maintained in the Company's claim files. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the tested claims, the Company's claim files adequately documented claim handling.

Recommendations: None.

<b>Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPPA), rules and regulations.</b>
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Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA reviewed the file for each selected claim, and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, RNA reviewed the Company's complaint log for complaints that were claim-related and tested 10 claim-related complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for handling claims are generally functioning in accordance with its policies, procedures and statutory requirements. Finally, upon evaluation of claims-related complaints, the related claims appeared to be properly handled.

Recommendations: None.

<b>Standard VII-7. Regulated entity claim forms are appropriate for the type of product.</b>
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Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims appropriately used the required claim forms in accordance with the Company's policies and regulatory requirements.

Recommendations: None.

<b>Standard VII-8. Claim files are reserved in accordance with the regulated entity's established procedures.</b>
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Objective: The Standard addresses the Company's process to establish and monitor claim reserves for reported losses. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.</b>
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Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected eight denied or closed-without-payment private passenger automobile claims for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was handled according to the Company's policies and procedures. Based upon testing, it appears that the Company's claim handling and denial practices are appropriate and are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

**Standard VII-10. Cancelled benefit checks and drafts reflect appropriate claim handling practices.**

Objective: The Standard addresses the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed procedures regarding the use of claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company does not use claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of procedures and testing, the Company did not appear to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and the generally Company did not attempt to settle claims for less than reasonable amounts due under the policies.

Recommendations: None.

<b>Standard VII-12. Regulated entity uses the reservation of rights and excess of loss letters, when appropriate.</b>
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Objective: The Standard addresses the Company's use of reservation of rights letters, and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA found three instances where reservation of rights or excess of loss letters were used. The use of these letters appeared appropriate. RNA noted no instances where reservation of rights or excess of loss letters should have been used, but were not. The Company's appears to have reasonable policies and procedures for the use of reservation of rights and excess of loss letters.

Recommendations: None.

<b>Standard VII-13. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.</b>
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Objective: The Standard addresses whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that deductible reimbursement to insureds, upon subrogation recoveries, for four tested claims was timely, accurate and processed according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for making deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

Recommendations: None.

<b>Standard VII-14. Loss statistical coding is complete and accurate.</b>
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Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy is to report complete and accurate loss data timely to appropriate rating bureaus.
- The Company reports private passenger automobile loss data to CAR in a format required by CAR. The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation. Daily claim statistical data is accumulated through the claim system, and summary data is provided monthly by the Company to CAR. Any claim statistical errors exceeding standard CAR tolerance levels must be corrected.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company has processes to correct loss data coding errors and to make subsequent changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 25 paid claims, eight denied or closed-without-payment claims, and 17 open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
PROGRESSIVE DIRECT INSURANCE COMPANY  
PROGRESSIVE CASUALTY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

Observations: RNA noted that selected loss data appears to be accurate and complete for tested claims. Based upon testing, the Company appears to have processes for timely and accurately reporting of loss statistical data to rating bureaus in accordance with its policies and statutory requirements.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
PROGRESSIVE DIRECT INSURANCE COMPANY  
PROGRESSIVE CASUALTY INSURANCE COMPANY

## SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the *2013 NAIC Market Regulation Handbooks*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Producer Licensing and Underwriting and Rating.



REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
PROGRESSIVE DIRECT INSURANCE COMPANY  
PROGRESSIVE CASUALTY INSURANCE COMPANY

**ACKNOWLEDGEMENT**

This is to certify that the undersigned is duly qualified and that, in conjunction with RNA applied certain agreed-upon procedures to the corporate records of the Company in order for the Division to perform a comprehensive market conduct examination of the Company.

The undersigned's participation in this comprehensive market conduct 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 NAIC and the Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), communication and status reporting throughout the examination, administration and preparation of the examination report.

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

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