



THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

Division of Insurance

Report on the Comprehensive Market Conduct Examination of

Quincy Mutual Fire Insurance Company

Quincy, Massachusetts

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

NAIC COMPANY CODE: 15067

EMPLOYERS ID NUMBER: 04-1752900



COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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COMMISSIONER OF INSURANCE

December 6, 2010

The Honorable Joseph G. Murphy
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
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 Law, Chapter 175, Section 4, a comprehensive examination has been made of the market conduct affairs of

QUINCY MUTUAL FIRE INSURANCE COMPANY

at its home office located at

57 Washington Street
Quincy, MA 02169

The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (“Division”) conducted a comprehensive market conduct examination of Quincy Mutual Fire Insurance Company (“Quincy” or “Company”) for the period January 1, 2009 through December 31, 2009. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, Section 4. The current market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Eide Bailly, LLP (“Eide”) were engaged to complete certain agreed-upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the 2009 *NAIC Market Regulation Handbook* (“Handbook”), the market conduct examination standards of the Division, the Commonwealth of Massachusetts’ (“Commonwealth”) insurance laws, regulations and bulletins, and selected federal laws and regulations. All procedures were performed under the management and control of the market conduct examination staff of the Division. The following describes the procedures performed and the findings for the workplan steps thereon.

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

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

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

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

EXECUTIVE SUMMARY

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

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

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

All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division’s website at www.mass.gov/doi.

SECTION VI – UNDERWRITING AND RATING

STANDARD VI-26

Transaction Testing Results:

Findings: The files for five of 42 automobile policies tested did not contain documentation to support an anti-theft discount given to the policyholder.

Observations: Eide noted no other violations of this standard during the testing of the remaining policies in the test sample, including 37 automobile policies.

Recommendations: The Company should ensure that its’ agents present all required documentation, including support for anti-theft discounts, to the Company when business is submitted. The Company should retain such documentation to support its business decisions.

SECTION VII – CLAIMS

STANDARD VII-6

Transaction Testing Results:

Findings:

- The Company did not include the mortgagee as a payee on one claim payment check issued to the insured for estimated building damage.
- The file for one claim tested did not contain a notice to the building inspector for building damage in excess of \$1,000.
- In five claims tested, the Company did not send the notice to the building inspector for building damage in excess of \$1,000 at least 10 days prior to the payment to the insured

Observations: Except as stated above, Eide noted no other violations of this standard during the testing of the remaining 102 claims in the test sample, including 51 homeowners' claims.

Recommendations:

- Eide recommends that the Company, upon satisfactory proof of rights and title, ensure that the mortgagee is listed as a payee on claim payment checks issued for estimated building damages.
- Eide recommends that the Company provide the required notice to the building inspector, when payment for building damage exceeds \$1,000, and retain a copy of the notice in the respective claim file.
- Eide recommends that the Company send the required notice to the building inspector at least 10 days before making payment to the insured when building damage exceeds \$1,000.

STANDARD VII-8

Transaction Testing Results:

Findings: In one claim tested, the Company did not increase reserves until January 22, 2010, 75 days after the adjuster recommended that they do so.

Observations: Eide noted no other violations of this standard during the testing of the remaining 108 claims.

Recommendations: Eide recommends that the Company timely implement reserve adjustments recommended by adjusters in accordance with Company reserving policies.

COMPANY BACKGROUND

Quincy Mutual Fire Insurance Company, its affiliate New England Mutual Insurance Company (“NEMIC”) and its wholly-owned subsidiary Patrons Oxford Insurance Company (“Patrons”) are part of the Quincy Mutual Group (“the Group”). The Group provides a range of property and casualty products throughout most of New England and New York. Patrons writes personal automobile, homeowners, dwelling fire, inland marine and umbrella coverage in the state of Maine. NEMIC was established as part of the Group in 2006, and participates in a risk sharing arrangement with Quincy and Patrons, but does not currently issue policies on a direct basis except as necessary to preserve its corporate powers under M.G.L. c. 175, § 44.

Quincy Investment Holdings, LLC is the Company’s wholly-owned subsidiary which, in turn, owns three independent insurance agencies and all investment real estate in the Quincy Mutual Group. The agency acquisitions have enabled vertical expansion within the group's operating territory, and they enhance Quincy's ability to monitor and quickly respond to new business opportunities.

The Group provides personal and commercial lines insurance through a distribution network of over 600 independent agents. Roughly 60% of the Group’s premiums are written in Massachusetts, with the remainder generated in New York and other New England states. The Group is predominantly focused on personal lines, with homeowners’ and personal automobile writings representing roughly 80% of total premiums. The Company is the seventh-largest writer of homeowners insurance in its domiciliary state of Massachusetts. The Company is a member of the Mutual Fire Insurance Association of New England, which operates an inland marine reinsurance pool, Associated Inland Marine.

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

The Company had \$254.7 million in direct written premium in 2009, and \$134.6 million in direct paid losses. Total statutory surplus for the period was \$709.1 million, with \$1.2 billion in admitted assets.

Beginning in 2008, Massachusetts significantly changed its automobile insurance market by moving to a competitive rating environment with a traditional residual risk market for high risk insureds. The Exclusive Representative Producer (“ERP”) system and Commonwealth Automobile Reinsurers’ (“CAR”) cession model for high risk insureds is slowly being dismantled. As a result, significant new competition has entered and is expected to enter the Massachusetts market, putting downward pressure on market rates.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

Standard I-1. The regulated entity has an up-to-date, valid internal or external audit program.

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

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

- The Company is audited annually by an independent accounting firm.
- The Company responds to external audit recommendations to correct, modify, and implement procedures.
- Upon completion of the audit, the auditor produces a report of audit findings and appropriate corrective actions, and discusses the report with Company management.
- The Company submits data to the Automobile Insurers Bureau ("AIB"). The AIB is a rating bureau that represents the insurance industry in rate hearings before the Commissioner of Insurance.
- The Company's claims department performs self-audits to review and evaluate processed claims to ensure adherence to internal policies and procedures.
- The Company conducts quality control audits to evaluate claims handling practices.
- The Company's underwriting department performs self-audits to ensure adherence to internal policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.

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

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

Transaction Testing Results:

Findings: None.

Observations: None

Recommendations: None.

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

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

Standard I-3. The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.
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Objective: This Standard is concerned with whether the Company has an antifraud plan that is adequate, up-to-date, in compliance with applicable statutes and implemented appropriately.

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

- The Company has a written antifraud plan.
- The Company has a Special Investigative Unit (“SIU”) dedicated to preventing and handling fraudulent activities.
- The SIU holds periodic meetings with representatives from various departments at the Company including claims, compliance, internal audit, underwriting, sales and customer service, to identify potentially fraudulent activity.
- The SIU tracks and investigates potentially fraudulent activity with the assistance of other departments when required by statute. Such activity is reported to the regulators as necessary.
- The SIU works with the Massachusetts Insurance Fraud Bureau to investigate and properly handle potential fraud.
- The Company’s claims and underwriting personnel take part in ongoing continuing education, focused on identification and proper treatment of potentially fraudulent activity.
- The Company has performed criminal background checks for all new and prospective employees since 2003.

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

Transaction Testing Procedure: Eide reviewed the Company’s anti-fraud policies and procedures, and the work of the SIU, as part of various claims standards.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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

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

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

Controls Assessment: The following controls were noted in review of Standard I-5 and Standard I-6:

- The Company uses independent agents to sell the Company's products. The independent and general agent contracts describe the duties of the parties, licensing and appointment requirements, limitations of authority, compensation, terminations and reappointments, compliance with the Company's replacement requirements and errors and omissions coverage requirements.
- The Company does not use MGA's.

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

Transaction Testing Procedure: Eide interviewed management about its use of third parties to perform Company functions, and reviewed a sample of agent contracts.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf.

Controls Assessment: Refer to Standard I-5.

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

Transaction Testing Procedure: Eide interviewed management about its monitoring of third parties who perform Company functions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company adequately monitors third parties who perform business functions on its behalf.

Recommendations: None.

Standard I-7. Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.
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Objective: This Standard is concerned with the organization, legibility and structure of files, as well as with determining if the Company is in compliance with the Commonwealth's record retention requirements. The objective of this Standard was included for review in each Standard where such policy or procedure for the retention of records exists or should exist.

Controls Assessment: The Company's home office record retention policies are described for each Standard, as applicable. In addition:

- Company policy requires that its producers keep complete records and accounts of all insurance transactions.
- The Company's standard producer contract requires the producer to keep insurance records and accounts current and identifiable.
- The Company's standard producer contract also maintains the Company's right to examine producers' accounts and records of all insurance transactions for as long as the Company deems reasonable, including a reasonable time after the termination of a producer contract.

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

Transaction Testing Procedure: Eide performed various procedures throughout this examination which related to review of documentation and record retention. Such testing results are noted in the various examination areas.

Transaction Testing Results:

Findings: None.

Observations: Records appear adequate, accessible and consistent, and comply with state record retention requirements.

Recommendations: None.

Standard I-8. The regulated entity is licensed for the lines of business that are being written.

M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard is concerned with whether the Company is operating within the requirements of its Certificate of Authority.

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 4.

Objective: This Standard is concerned with the Company's cooperation during the course of the examination.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures for minimizing improper intrusion into the privacy of applicants and policyholders.

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

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

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

- Company policy is to disclose information only as required or permitted by law, to industry regulators, law enforcement agencies, anti-fraud organizations and third parties who assist the Company in processing business transactions for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders at the time an application is taken. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company has developed and implemented information technology security practices to safeguard customer, personal and health information.
- The Company's privacy policy states that it does not disclose any non-public personal information to any affiliate or non-affiliated third party for marketing purposes, and discloses non-public personal information only for the purpose of processing and evaluating consumers' insurance applications or claims.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of applicants and policyholders, and is disclosed to policyholders in accordance with the Company's policies and procedures. The Company also appears to have proper documentation to support any adverse underwriting decisions it makes.

Recommendations: None.

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

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

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review, the Company appears to be in compliance with applicable statutes and regulations.

Recommendations: None.

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.

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

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

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

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act and its related rule 16 CFR Part 313 regarding privacy requirements of nonpublic personal information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company has developed and implemented information technology security practices to safeguard nonpublic personal information.
- The Company's privacy policy states that it does not disclose any non-public personal information to any affiliate or non-affiliated third party for marketing purposes, and discloses non-public personal information only for the purpose of processing and evaluating consumers' insurance applications or claims.

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

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

Transaction Testing Results:

Findings: None.

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

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.

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

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

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

Controls Assessment: Refer to Standard I-12.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for privacy compliance, and examined whether its privacy notice provided sufficient information and disclosures.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice and discussion with Company personnel, it appears that the Company's privacy notice provides sufficient disclosures to applicants and policyholders regarding its collection and use of nonpublic personal financial information, in accordance with its policies and procedures.

Recommendations: None.

Standard I-14. If the regulated entity discloses information subject to an opt-out right, the regulated entity 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 regulated entity provides opt out notices to its customers and other affected consumers.

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

Objective: This Standard is concerned with the Company's policies and procedures with regard to opt out rights.

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

Controls Assessment: Refer to Standard I-12.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for privacy compliance, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company provides information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions for its policyholders, and therefore is not required to provide an opt out option.

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.

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

Objective: This Standard is concerned with the Company's policies and procedures regarding its collection, use and disclosure of nonpublic personal financial information.

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

Controls Assessment: Refer to Standard I-12.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for privacy compliance, and reviewed its privacy notice for disclosures regarding its collection and use of nonpublic personal financial information. The Division's financial examination team conducted a review of the Company's privacy policies, which provided additional information to the market conduct examiners.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

The Health Insurance Portability and Accountability Act of 1996, Public Law 104-191 and 45 CFR Parts 160 and 164 set proper procedure for inquiry, release, disclosure and maintenance of nonpublic personal health information.

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

- The Company stated that it does not sell any personal consumer information to third parties.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions for its policyholders.
- Company policy requires that a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders via standard mail.
- The Company has developed and implemented information technology security practices to safeguard nonpublic personal information.
- The Company's privacy policy states that it does not disclose any non-public personal information to any affiliate or non-affiliated third party for marketing purposes, and discloses non-public personal information only for the purpose of processing and evaluating consumers' insurance applications or claims.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for privacy compliance, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard addresses the Company's information security program for ensuring the protection of nonpublic customer information.

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

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act and its related rule 16 CFR Part 313 regarding privacy requirements of nonpublic personal information.
- The Company has written policies and procedures for maintaining the security of nonpublic policyholder and consumer information.
- The Company stated that it does not sell personal information to third parties.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations and third parties who assist the Company in processing business transactions for its policyholders.
- The Company has developed and implemented information technology security practices to safeguard nonpublic personal information.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for information security, and reviewed documentation supporting its information security policies and procedures. Review of information technology access and authorization controls is also included in the scope of the recently completed statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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 complaint register.

M.G.L. c. 176D, § 3(10).

Objective: This Standard is concerned with whether the Company formally tracks complaints or grievances.

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

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

- Written policies and procedures govern the complaint handling process.
- All complaints are recorded in a consistent format in the complaint log.
- The Company's definition of complaint is similar to the statutory definition.
- The Company has a centralized function for receiving and processing complaints to ensure consistency in handling and documentation.
- The Company reviews all complaints from the Division, and forwards them to the appropriate manager for investigation and response.

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

Transaction Testing Procedure: Eide obtained complaint lists from the Company and the Division for the examination period. Eide also reviewed each complaint file, noting the response date and the documentation supporting resolution of the complaint, to ensure that they were handled in accordance with statutory guidelines.

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

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company appears to maintain complaint handling procedures, and a complete listing of complaints, in accordance with statutory guidelines. Eide also reviewed the complaint lists obtained from the Company and the Division for the examination period, noting both lists logged 15 complaints about the Company made to the Division.

Recommendations: None.

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

M.G.L. c. 176D, § 3(10).

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

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

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide interviewed Company personnel responsible for complaint handling, and examined evidence of the Company's related processes and controls. Eide obtained complaint lists from the Company and the Division for the examination period, and reviewed all complaints from both lists to ensure that complaints were being handled in accordance with statutory guidelines. Finally, Eide reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures in place, including root cause analysis, and communicates such procedures to policyholders. Eide also reviewed the complaint lists obtained from the Company and the Division for the examination period, noting that both lists logged 15 complaints about the Company made to the Division.

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 is concerned with whether the Company's response to the complaint fully addresses the issues raised.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide reviewed all complaints received by the Division and the Company during the examination period to evaluate this Standard. Eide also interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls.

Transaction Testing Results:

Findings: None

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

Recommendations: None

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

Objective: This Standard is concerned with the time required for the Company to process each complaint.

Massachusetts does not have a specific complaint handling time standard in the statutes or regulations. Established Division practice requires insurers to respond to the Division within 14 days of the date it receives any complaint from the Division.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide interviewed Company personnel responsible for complaint handling, and examined evidence of the Company's related processes and controls. Eide also reviewed a complete list of the Massachusetts complaint files from the Division for the examination period, to evaluate the Company's complaint response times. In addition, Eide reviewed all complaints to determine the reason for delay for any which exceeded the 14 day response time required by the Division.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company responded to the issues raised in all the complaints tested in an appropriate and timely manner through its formal complaint process. The Company further appears to treat complainants with similar fact patterns in a consistent manner, and adequately documents its complaint files. All complaints reviewed were responded to within 14 days as required.

Recommendations: None.

III. MARKETING AND SALES

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

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

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

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

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

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

- All advertising and sales materials produced by the Company are reviewed by management for approval and compliance with statutory and regulatory requirements prior to use.
- The Company's policy is that its website discloses the Company's name and 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: Eide reviewed direct advertising and sales materials used by the Company during the examination period for compliance with statutory and regulatory requirements. Eide also reviewed the Company's website for appropriate disclosure of its name and address, and compliance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: The results of Eide's testing showed that the Company's advertising and sales materials comply with applicable Massachusetts' laws, regulations and bulletins.

Recommendations: None.

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

Objective: This Standard is concerned with whether the Company's producer training materials are in compliance with Massachusetts' statutes, rules and regulations.

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

- The Company has frequent meetings with all producers, and provides them with training on Company products and the use of its web interface.
- The Company currently accepts both paper and internet submissions for underwriting and claims information.

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

Transaction Testing Procedure: Eide conducted interviews with key personnel to determine what type of producer training material the Company uses, and reviewed examples of such material in use during the examination period.

Transaction Testing Results:

Findings: None.

Observations: The Company's producer training materials appear accurate and reasonable.

Recommendations: None.

Standard III-3. Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.
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Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with applicable statutes, rules and regulations.

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

- The Company periodically communicates information to agents via e-mail, letters, bulletins and telephone calls, which note changes in Company policies, practices and procedures.

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

Transaction Testing Procedure: Eide conducted interviews with key Company personnel to determine what type of producer communications it uses, and reviewed examples of such communications in use during the examination period.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard III-4. Regulated entity mass marketing of property and casualty insurance is in compliance with applicable statutes, rules and regulations.

M.G.L. c. 175, § 193R.

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

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

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

- Written Company underwriting guidelines are designed to reasonably assure consistency in the application of premium discounts and surcharges.
- The Company provides the same premium discount of 13% to each member of its only affinity group, whose members are the Company's home office employees.
- Premium discounts available to affinity groups are filed with and approved by the Division.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the marketing and underwriting processes, and selected 109 policies issued, renewed or canceled during the examination period, to test premium discounts, including those to its affinity group. Eide verified that the affinity group discount for each policy was properly applied and approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that each of the premium discounts, including those given to its affinity group, was properly applied and approved by the Division.

Recommendations: None.

IV. PRODUCER LICENSING

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

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

M.G.L. c. 175, §§ 162I and 162S.

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

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

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

- The Company maintains an automated producer database that interfaces with its underwriting, policyholder service and producer compensation systems.
- All producers are required to enter into a written contract with the Company prior to their appointment.
- The Company requires producers to provide a copy of their corporate and individual licenses during the appointment process.
- Agency contracts require the reporting of producer hirings and departures to the Company in writing.
- Agencies must annually notify the Company of changes to the producer listing upon license renewal.
- The Company's appointment procedures are designed to comply with M.G.L. c. 175, § 162S, which requires that a producer who acts as an agent of the Company be appointed by them within 15 days from the date their contract is executed, or from the date the first coverage application is submitted.

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

Transaction Testing Procedure: Eide interviewed individuals with responsibility for producer contracting and processing of appointments, and reconciled the Division's producer listing to the Company's producer listing.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

M.G.L. c. 175, §§ 162I and 162S.

Refer to Standard IV-1 for discussion and recommendations also applicable to this standard.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: This Standard is concerned with whether the Company's termination of producers complies with applicable statutes requiring notification to the Commonwealth and to the producer.

Pursuant to M.G.L. c. 175, § 162T, the regulated entity must notify the Division within 30 days of the effective date of a producer's termination, and of the reason for any "for cause" termination. M.G.L. c. 175, § 162R defines the reasons for which the Division may terminate a producer's license.

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

- Agency contracts require the reporting of producer hirings and departures to the Company in writing.
- Marketing representatives periodically visit each agency to inquire about any changes in personnel, and to ensure they are notifying the Company of any hiring or departures.
- Agencies must annually notify the Company of changes to the producer listing upon license renewal.
- The Company notifies terminated producers using a letter whose contents have been approved by the Division.
- When the termination is "for cause" the Company sends the notice to the producer via certified mail, return receipt requested.

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

Transaction Testing Procedure: Eide interviewed individuals responsible for producer contracting and termination processing. Eide also requested and reviewed documentation of the Company's reporting of all six producer terminations from the examination period to the Division.

Transaction Testing Results:

Findings: None.

Observations: The Company notifies the Division of terminations consistent with procedures established by the Division.

Recommendations: None.

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

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

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

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

Transaction Testing Procedure: Eide reviewed documentation for 109 policies issued, renewed or canceled during the examination period, for evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: Eide's testing noted no evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Recommendations: None.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: The Standard is concerned that the Company's records for terminated producers adequately document the action taken.

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

Controls Assessment: Refer to Standard IV-3.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

V. POLICYHOLDER SERVICE

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

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

M.G.L. c. 175, §§ 193B and 193B ½.

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

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

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

- The policyholder receives a renewal notice from the Company 21-30 days prior to the effective date of the renewal, asking the policyholder to report changes in requested coverage or listed drivers, and to complete the annual low mileage form if applicable.
- Renewal billing notices are generated automatically through the policy administration system approximately 21-30 days before policy expiration.
- All billing notices contain disclosures regarding grace periods and policy cancellation for non-payment of premium.
- Automobile and homeowners policies require 100% advance premium payment for policyholders previously canceled by any company for non-payment.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for policyholder service. In conjunction with the underwriting and rating testing, Eide reviewed billing notice dates, fees and interest charges for 109 policies issued, renewed or canceled during the examination period. The date each renewal letter was sent to the policyholder, as tracked in the Company's database, was compared with the policy's effective renewal date.

Transaction Testing Results:

Findings: None.

Observations: Eide's review showed that billing notices for renewal policies were mailed 21-30 days prior to the policy expiration date per the Company's requirements.

Recommendations: None.

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

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

Objective: This Standard addresses the Company's procedures to ensure customer cancellation requests are processed timely.

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

Objectives pertaining to policy issuance are included in Underwriting and Rating Standard VI-6. Return of premium testing is included in Policyholder Service Standard V-7.

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

- Company policy is to cancel policies when the producer notifies them of the policyholder's request and to process premium refunds in a timely manner.
- The Company refunds unearned premium to policyholders on a pro-rata or short rate basis, pursuant to statutory and regulatory guidelines.

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

Transaction Testing Procedure: Eide interviewed Company personnel responsible for policyholder service, and reviewed 14 policy cancellations in the testing sample of 109 policies issued, renewed or cancelled during the examination period, to ensure that proper notice of cancellation was given, and unearned premium timely returned. Calculation of unearned premium is also covered in the financial examination.

Transaction Testing Results:

Findings: None.

Observations: The insured-requested cancellations tested were processed timely according to the Company's policies and procedures. Based upon the results of testing, the Company's processing of insured-requested cancellations appears to be functioning in accordance with its policies, procedures, and statutory requirements.

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 is concerned with whether the Company provides timely and responsive information to policyholders and claimants from the appropriate department. For discussion of written complaint procedures, see the Complaint Handling section.

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

- Policyholder special requests typically mailed in with premium payments are detected when opened in the Company's payment scanner in the billing department.
- The billing department is the first to read the request, and forwards it to the proper department for handling.
- The Company has established a 24-48 hour time limit for standard responses to correspondence requesting general policy information related to billing or coverage.
- Issues like complaints or underwriting decisions that require additional review are handled separately from those that require standard responses.
- The Company's policyholder services division provides front-line responses to policyholders, and responds to most policyholder inquiries except formalized complaints, which are handled by the applicable department to which the complaint relates.
- The Company considers its producers as having the primary relationship with policyholders. Since customer service representatives are not licensed producers, policyholders must request endorsements and policy changes through the producer. Policyholders who request such changes through policyholder services are referred to the producer for servicing.

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

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

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of general correspondence between policyholders and the Company regarding underwriting and rating, policyholder service and claims, it appears that the Company provides timely and responsive answers to such correspondence from the appropriate department, in accordance with their policies and procedures. The complaint testing performed also supports the timeliness of the Company's responses to correspondence.

Recommendations: None.

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 did not enter into assumption reinsurance agreements during the examination period allowing the Company to cede or transfer the obligations of its contracts to another regulated entity.

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

Objective: This Standard is concerned with whether policyholders' requests are accurately and completely processed.

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

- Insureds may submit claims by calling the Company, submitting a claim document to the company via mail, e-mail or facsimile, or by notifying the producer of the claim.
- Policy transaction issues that require additional review are handled separately from those that require standard responses. A "standard" response includes when the policyholder inquires about policy effective dates, status of their claim check, and other general information. Issues that could require additional review include when a policyholder disputes the amount of a claim payment after it has been adjusted, or has a formal complaint about the Company's actions related to any area from sales and underwriting, to processing a claim.
- Changes to existing policies are usually done through the policyholder's agent. Minor administrative changes may be made by the Company via direct telephone inquiry.
- The Company's policy is to contact an insured within 24 hours of receiving any written inquiry or voice message, and to immediately respond to telephone calls during business hours.

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

Transaction Testing Procedure: Eide discussed endorsements, cancellations and change in information procedures with Company personnel, and reviewed actual correspondence between policyholders and the Company, in conjunction with review of 109 policies issued, renewed or canceled in the Underwriting and Rating section.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of general correspondence between policyholders, agents and the Company regarding policy changes, it appears that the Company accurately and completely processes policy transactions.

Recommendations: None.

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

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

Objectives: This standard is concerned with whether the Company makes reasonable attempts to locate missing policyholders or beneficiaries of unclaimed property.

M.G.L. c. 200A, § 1 includes insurance policies in the definition of property, requires annual reporting to the State Treasurer's Office regarding efforts to locate policyowners, and further requires payment of escheated property to the State Treasurer's Office. Pursuant to M.G.L. c. 200A, §§ 2, 7-7B, 8A and 9, the amounts due to policyholders or beneficiaries are presumed abandoned if unclaimed for more than three years after the funds become payable.

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

- The Company has formal procedures in place for contacting missing policyholders and beneficiaries.
- The Company has a formal process for resolving returned mail.

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

Transaction Testing Procedure: Eide discussed endorsements, cancellations and change in information procedures with Company personnel, and reviewed actual correspondence between policyholders and the Company, in conjunction with review of 109 issued, renewed or cancelled policies, and 109 claims in the policyholder service, underwriting and rating, and claims sections.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of general correspondence between policyholders, agents and the Company regarding policy changes, it appears that the Company accurately and completely processes policy transactions.

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.

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

Objective: This Standard is concerned with whether the Company refunds unearned premium from cancellation in a timely manner in accordance with statutory requirements.

Pursuant to M.G.L. c. 175, § 187C, written notices of cancellation are required from insurers. Pursuant to M.G.L. c. 175, § 187D, insurers have the right to cancel a policy for non-payment of premium. M.G.L. c. 175, §§ 113A and 176A provide that insureds are entitled to return premium calculated on a pro rata basis within 30 days of the cancellation of a motor vehicle policy. 211 CMR 97.05 provides that short rate tables may be used to calculate automobile premium refunds in certain instances.

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

- Insureds may file claims by calling the Company, submitting a claim document to the company via mail, e-mail or facsimile, or by notifying the producer of the claim.
- Issues that require additional review are handled separately from those that require standard responses. A “standard” response includes when the policyholder inquires about policy effective dates, status of their claim check, and other general information. Issues that could require additional review include when a policyholder disputes the amount of a claim payment after it has been adjusted, or has a formal complaint about the Company’s actions related to any area from sales and underwriting, to processing a claim.
- Changes to existing policies are usually done through the policyholder’s agent. Minor administrative changes may be made by the Company via direct telephone inquiry.
- The Company’s policy is to contact an insured within 24 hours of receiving any written inquiry or voice message, and to immediately respond to telephone calls during business hours.
- The Company will issue a notice of cancellation 2-5 business days after an account becomes delinquent.
- The Company utilizes a pro-rata method to calculate unearned premium due to policyholders upon cancellation.

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

Transaction Testing Procedure: During Eide’s review of the 109 issued, renewed or cancelled policies in the underwriting and rating section, 14 cancellations were investigated to ensure that proper notice of cancellation was given, and that any unearned premium was returned within a reasonable time period. Calculation of unearned premium is also covered in the financial examination.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the selected policies, the Company appears to be providing proper notice to policyholders regarding cancellations for non-payment. Eide noted no instances where the unearned premium from a cancellation was not returned to the insured within a reasonable time frame. Eide also discussed calculation of unearned premium with the Division's financial examination team, and noted no concerns.

Recommendations: None.

<u>Standard V-8. Claims history and loss information is provided to the insured in timely manner.</u>
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Objective: This Standard is concerned with whether the Company responded to insureds' requests for claim history and paid loss information timely, accurately and completely.

Controls Assessment: Refer to Standard V-5.

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

Transaction Testing Procedure: Eide reviewed 109 claims filed during the examination period, to determine whether the Company timely and properly responded to insured requests for claims history and loss information.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, the Company timely responded to policyholder and claimant inquiries.

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 174A, §§ 5, 6, and 9; M.G.L. c. 175E, §§ 4 and 7; M.G.L. c. 175, §§ 113B, 111H and 193R; M.G.L. c. 175A, §§ 5, 6, and 9; M.G.L. c. 152, § 53A; 211 CMR 56.04, 79.00, 91.00, 110.00, 113.00, 115.00, 131.00 and 134.00; Division Bulletins 2008-04 and 2008-08.

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

Pursuant to M.G.L. c. 174A, § 5, rates for fire, marine and inland marine coverage shall be experienced based and not unfairly discriminatory. Affiliates may make the same rate filings or use the same rates. Pursuant to M.G.L. c. 174A, § 6, insurers shall file rates with the Commissioner 15 days before their effective date. Pursuant to M.G.L. c. 174A, § 9, members of rating organizations must use their filed rates, or must file separate rates.

Pursuant to M.G.L. c. 175E, § 7, every insurer, or rating organization authorized to file on behalf of such insurer, shall file with the Commissioner every manual of its classifications, rules and rates, rating plans and modifications of any of the foregoing, not less than 45 days before the effective date thereof. Pursuant to M.G.L. c. 175, § 113B, various discounts and surcharges are statutorily mandated. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. Pursuant to M.G.L. c. 175E, § 4, rates shall not be excessive, inadequate or discriminatory, and shall be discounted 25% for insureds age 65 or older. Pursuant to 211 CMR 56.04, premium discounts are mandated for election of optional repair shop endorsement plans. M.G.L. c. 175, § 111H requires that insurers cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. Pursuant to M.G.L. c. 175A, § 5, rates for commercial insurance shall be based on experience and shall not be unfairly discriminatory. Affiliates shall have the right to make the same filings or to use the same rates. Rates shall not be excessive, inadequate or unfairly discriminatory, and must be filed with the Commissioner as provided by M.G.L. c. 175A, § 6 prior to use. Insurers must also use filed rates, unless they obtain approval for a rate deviation, as set forth in M.G.L. c. 175A, § 9. 211 CMR 79.00 outlines private passenger and commercial auto rate filings and hearing requirements. 211 CMR 91.00 governs activities of rating organizations, the form and content of automobile rate filings and the conduct of related hearings. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing, and 211 CMR 134.00 requires each driver to receive a step rating according to the Safe Driver Insurance Plan, which requires corresponding discounts and surcharges.

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

Division Bulletin 2008-04 discusses procedures for filing forms and rates for commercial terrorism coverage and required disclosures. Division Bulletin 2008-08 outlines guidelines for filing rate and form filings for all lines of business

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

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Producers enter application data and billing mode information on-line on the Company's in-house system.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of the general rating methodology, in accordance with statutory and regulatory requirements.
- Commercial automobile rates are determined by CAR for those risks ceded to CAR, and such rates are filed with the Division. All other commercial automobile rates are otherwise filed with the Division for approval prior to use.
- The Company provides the same premium discount of 13% to each member of its only affinity group, whose members are the Company's home office employees.
- The Company does not offer optional repair shop endorsement plans.
- The Company's commercial multi-peril rates are based on a combination of experience and Insurance Service Office ("ISO") rates. The Company files such rates with the Division prior to use to comply with statutory and regulatory requirements. Property coverage rating criteria include territory, coverage amount and type, property age, protection class and structure type. Liability coverage rates are generally based on the type of business, number of employees, payroll and annual revenue.
- Workers compensation rates are determined by the Workers' Compensation Rating and Inspection Bureau ("WCRIB"), and such rates are filed with the Division.
- The WCRIB conducts audits of the Company's compliance with workers' compensation statistical reporting requirements, including those related to premium rates.

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

Transaction Testing Procedure: Eide interviewed the Company's underwriting personnel to gain an understanding of the underwriting process. Eide selected 109 policies issued, renewed or canceled during the examination period to test rates, classifications and premium discounts. Eide verified that each policy's premium discounts and surcharges for multiple coverages complied with statutory and regulatory requirements, and were supported by documentation.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Pursuant to M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11, the insurer will furnish any requested rate information to the insured in a timely manner. Pursuant to M.G.L. c. 175E, § 11, an information guide, which outlines available coverage choices and approximate cost differences among various types of coverage and among competing carriers, shall be provided upon application. Pursuant to M.G.L. c. 175E, § 11A, producers shall disclose coverage options in simple language to every person they solicit, including the option to exclude oneself and members of one's household from personal injury protection coverage. Pursuant to M.G.L. c. 175, § 99, fire policy form requirements include coverage for tenant relocation for landlord multi-unit residential property. Pursuant to M.G.L. c. 175, § 99A, fire policies must disclose exclusion of coverage for nuclear contamination.

Division Bulletin 2008-04 discusses required disclosures and procedures for filing forms and rates for commercial terrorism coverage. Division Bulletin 2008-05 requires insurers to provide private passenger automobile consumers with a "Ways to Save Guide." Division Bulletin 2008-07 requires insurers to obtain written acknowledgement from applicants for automobile policies with a six month term.

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

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company communicates with the producer if information or forms are missing from new business applications.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete, including use of all Company required forms and instructions.
- The Company has reminded producers to give the information guide with coverage options to consumers when new business is written.

- Company policy is to provide the information guide to policyholders upon policy renewal, while producers provide the information guide when a new application is taken.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process, and reviewed the information guides utilized for new business. Eide also selected 109 policies issued, renewed or canceled during the examination period, to test for timely disclosure of rates and coverage.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard is concerned with ensuring that the Company does not permit illegal rebating, commission cutting or inducements, and that producer commissions adhere to the commission schedule.

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

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

- The Company has procedures for paying producers' commissions in accordance with approved commission rates.

- The Company's producer contracts, and its home office 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: Eide interviewed individuals with responsibility for producer contracting and commission processing. Eide inspected new business materials, including advertising materials, producer training materials and manuals, for indications of rebating, commission cutting or inducements. Eide reviewed the underwriting notes for 109 policies issued, renewed or canceled during the examination period, for evidence of illegal rebates, commission cutting or special inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Pursuant to M.G.L. c. 175E, § 4, automobile rates shall not be excessive, inadequate or discriminatory, and shall be discounted 25% for insureds age 65 or older. M.G.L. c. 175, § 4C states insurers may not discriminate based on race, color, religious creed, national origin or sex when issuing or renewing homeowners policies. M.G.L. c. 175, § 22E, states that insurers may not refuse to issue or renew an automobile policy based on an insured's age, sex, race, occupation or marital status, or the vehicle's principal place of garaging. M.G.L. c. 175, § 95B prohibits discrimination against abuse victims in residential property insurance sales. M.G.L. c. 175, § 113K states a person aged 16 or older may purchase automobile insurance, and M.G.L. c. 175, § 113N prohibits medical exams as a condition of underwriting an automobile policy. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation or physical impairment, unless such discrimination is "based on sound actuarial principles or is related to actual experience."

M.G.L. c. 175A, § 5 states rates for commercial automobile and multi-peril policies shall be based on past and prospective loss experience, a reasonable margin for underwriting profit and contingencies, investment income, unearned premium reserves and loss reserves, and shall not be excessive, inadequate or unfairly discriminatory. M.G.L. c. 174A, § 5 states fire rates for commercial multi-peril policies shall be based on past and prospective loss experience during a period of not less than the most recent five-year period for which such experience is available.

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company provides the same premium discount of 13% to each member of its only affinity group, whose members are the Company's home office employees.
- Premium discounts available to affinity groups are filed with and approved by the Division.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the marketing and underwriting processes. Eide selected 109 policies issued, renewed or canceled during the examination period to test premium discounts, including those given to its affinity group. Two of the tested policies were group policies. Eide verified that the affinity group discount for the policy was properly applied, and that the application was not unfairly discriminatory. In addition, Eide conducted a walkthrough to understand how the discounts are applied, and to ensure that the policy reviewed in the sample is indicative of the overall procedures in place.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company properly applied the premium discount to each member of its only affinity group in a non-discriminatory manner.

Recommendations: None.

Standard VI-5. All forms, including contracts, riders, endorsement forms and certificates are filed with the Department of Insurance, if applicable.

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

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

Pursuant to M.G.L. c. 175, § 2B, policy form language, size and content standards for all policies must meet statutory requirements for readability and understanding. M.G.L. c. 175, § 192 states endorsements are part of policy forms, and must be filed with the Division prior to use. M.G.L. c. 175, §§ 22A and 113A require the filing of commercial automobile policy forms prior to use. M.G.L. c. 175, § 99 outlines policy form requirements, including coverage for tenant relocation for landlord multi-unit residential property. M.G.L. c. 175, § 99B outlines form authority and approval for commercial property and multi-peril condominium risks. M.G.L. c. 175, § 111H states insurers shall cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. Pursuant to M.G.L. c. 175, § 113A, insurers must give 20 days notice to cancel, they must obtain a certificate of mailing receipt from post office, and return premium must be mailed.

Division Bulletin 2008-04 discusses procedures for filing forms and rates for commercial terrorism coverage and required disclosures. Division Bulletin 2008-08 outlines guidelines for rate and form filings for all lines of business. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing. Division Bulletin 2009-06 establishes guidelines for deductibles for commercial motor vehicle liability policies. M.G.L. c. 152, § 53A requires workers' compensation policy forms to be filed with the Division.

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

- Company policy requires the use of the standard Massachusetts policy forms and endorsements which are filed with and approved by the Division.
- Producers are required to use such forms and endorsements as guidelines when providing a quote 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: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 109 policies issued, renewed or canceled during the examination period, to test for the use of acceptable policy forms and endorsements in compliance with Company policies and procedures, and statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None

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

211 CMR 94.00.

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

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

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

- Company policy requires the use of policy forms and endorsements which are approved by the Division.
- Producers are required to use such forms and endorsements as guidelines when providing quotes to consumers.
- Company supervisors review all applications completed by producers to ensure that they are complete and internally consistent.
- Company procedures include mailing renewal notices 21-30 days prior to the policy renewal effective date.
- The Company compares information provided by the applicant to information obtained from the Massachusetts Registry of Motor Vehicles, and requires additional information to explain discrepancies for the policy to remain in-force.
- The Company's underwriting department performs self-audits to ensure adherence to internal policies and procedures.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.
- The WCRIB conducts audits of the Company's compliance with workers' compensation statistical reporting requirements, including those related to premium rates.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 109 policies issued, renewed or canceled during the examination period, to test whether new and renewal policies, including endorsements, were issued timely and accurately.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- Company policy prohibits unfair discrimination in underwriting.
- Company policy allows for the cancellation of homeowners' policies when the nature of the risk at inception changes to an unacceptable risk during the coverage period.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company's underwriting department conducts self-audits to evaluate compliance with statutory requirements for cancellations and non-renewals.

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

Transaction Testing Procedure: Eide interviewed the underwriting department regarding policy cancellations and declinations, and selected a sample of 109 policies issued, renewed or canceled during the examination period for testing. Eide reviewed the policy, related underwriting notes and supporting documentation, for evidence of discriminatory cancellations or declinations.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

M.G.L. c. 175, § 22C states that automobile physical damage, personal injury protection or bodily injury coverage is only cancelable due to non-payment, fraud, driver license suspension or failure to comply with renewal requirements after 30 days notice. M.G.L. c. 175, § 99 outlines policy form requirements, including coverage for tenant relocation for landlord multi-unit residential property.

Pursuant to M.G.L. c. 175, § 113A, no cancellation of the policy shall be valid unless written notice of the specific reason or reasons for such cancellation is given at least 20 days prior to the effective date thereof, which date shall be set forth in the notice. M.G.L. c. 175, § 113F states that any Company which does not intend to issue, extend or renew a motor vehicle liability policy shall give written notice to the insured (or agent in certain circumstances) of its intent 45 days prior to the termination effective date. Such notice must also be sent to the Registry of Motor Vehicles. Every insurance agent or broker receiving such a notice from a company shall, within 15 days of its receipt, send a copy of such notice to the insured, unless another insurer has issued a motor vehicle policy covering that insured's vehicles.

Pursuant to M.G.L. c. 175, § 187C, any Company shall effect cancellation by serving written notice thereof as provided by the policy, and by paying the full return premium due. Pursuant to M.G.L. c. 175, § 193P, insurers must give 45 days written notice to an insured with reasons stated to cancel homeowners' fire coverage. Agents similarly must notify an insured within 15 days of receipt. Pursuant to M.G.L. c. 175, § 193R, group rating is allowed, but companies must offer no higher than the same rate in the individual market, and cannot cancel anyone in the group except for fraud or non-payment. 211 CMR 97.04 and 97.06 provide guidelines for the issuance of notices of cancellation and non-renewal of motor vehicle policies.

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

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

- The Company generally gives declination notices to an insured on the application date. Declinations typically result from failure to maintain a valid driver's license, having outstanding balances owed to insurers over the previous year, or having a history of non-payment of premium over the past two years.

- Company policy requires that cancellation notices be mailed at least 21-23 days prior to cancellation. The notice includes cancellation date and possible remedies available to the insured.
- Company policy requires that notices of non-renewal be sent to the insured or producer at least 45 days in advance of the termination effective date. These producers are then required to give any such notice to insureds within 15 days of receiving them.
- Company generally does not cancel commercial policies after the first 60 days of coverage, nor do they rescind coverage. However, when the Company elects to cancel such coverage, its practice is to give notice to the producer at least 20 days prior to the cancellation effective date. Producers are then responsible for timely communicating the pending action to the policyholder.
- The Company generally does not rescind coverage.
- The Company's underwriting department conducts self-audits to evaluate compliance with statutory requirements for cancellations and non-renewals.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 109 policies issued, renewed or canceled during the examination period for underwriting testing. Canceled policies were examined to ensure that the reasons for cancellation, and the prior notice of cancellation, complied with statutory requirements and Company underwriting guidelines. Eide verified that the cancellation form used was the standard approved form, and that the date of the cancellation letter, when compared to the cancellation effective date, showed that timely notice was given within statutory guidelines.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<p>Standard VI-9. Rescissions are not made for non-material misrepresentation.</p>

<p>M.G.L. c. 175, §§ 22C and 187D.</p>

Objective: This Standard is concerned with whether decisions to rescind and to cancel coverage are made appropriately.

M.G.L. c. 175, § 22C states that a motor vehicle policy shall not be canceled by any company except for nonpayment of premium, the failure to complete the application, fraud or material misrepresentation in the application. The statute allows cancellation when the operator's license or motor vehicle registration of the named insured, or of any other person who resides in the same household as the named insured and who usually operates a motor vehicle insured under the policy,

has been under suspension or revocation during the policy period, or if the insured refuses to comply with a request for inspection of his vehicle by the insurer. M.G.L. c. 175, § 187D also allows the cancellation of the policy for nonpayment of premium.

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

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

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process, and selected 14 cancellations or non-renewals processed during the examination period, to test for evidence of improper rescission.

Transaction Testing Results:

Findings: None.

Observations: None of the policies tested were rescinded, and Eide noted no improper rescission in conjunction with other underwriting tests.

Recommendations: None.

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

M.G.L. c. 174A, §§ 5, 6 and 9; M.G.L. c. 175, §§ 111H, 113B and 193R; M.G.L. c. 175A, §§ 5, 6 and 9; M.G.L. c. 175E, §§ 4 and 7; M.G.L. c. 152, § 53A; 211 CMR 56.04, 79.00, 91.00, 110.00, 113.00, 115.00, 131.00 and 134.00; Division Bulletin 2008-13.

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

For both private passenger and commercial automobile policies, M.G.L. c. 175E, § 7 and 211 CMR 79.00 require every insurer, or rating organization authorized to file on behalf of such insurer, to file with the Commissioner its classifications, rules and rates, rating plans and modifications of any of the foregoing not less than 45 days before the effective date thereof.

Pursuant to M.G.L. c. 174A, § 5, rates for fire, marine and inland marine coverage shall be based on experience and not be unfairly discriminatory. M.G.L. c. 174A, § 6 states insurers shall file rates with the Commissioner 15 days before the effective date. M.G.L. c. 174A, § 9 and M.G.L. c. 175A, § 9 state members or rating organizations must use their filed rates, or must file separate rates.

M.G.L. c. 175A, § 5 states rates for commercial insurance shall be based on experience and shall not be unfairly discriminatory. M.G.L. c. 175A, § 6 states insurers and rating organizations must file certain casualty insurance rates 15 days prior to their effective date.

Pursuant to M.G.L. c. 175E, § 4, private passenger automobile rates shall not be excessive, inadequate or discriminatory, and shall be discounted 25% for insureds age 65 or older. M.G.L. c. 175, § 111H states insurers shall cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. M.G.L. c. 175, § 113B mandates various discounts and surcharges for automobile policies. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 56.04 requires premium discounts for election of optional repair shop endorsement plans. 211 CMR 134.00 requires each driver to receive a step rating according to the Safe Driver Insurance Plan, which requires corresponding discounts and surcharges. 211 CMR 91.00 also prescribes requirements for the filing of rates with the Commissioner at least 45 days prior to their effective date. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing. Division Bulletin 2008-13 clarifies the meaning of “high-theft vehicles” and types of anti-theft devices.

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

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

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Producers enter application data and billing mode information on-line on the Company’s in-house system.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of the general rating methodology, in accordance with statutory and regulatory requirements.
- Commercial automobile rates are determined by CAR for those risks ceded to CAR, and such rates are filed with the Division. All other commercial automobile rates are otherwise filed with the Division for approval prior to use.
- The Company provides the same premium discount of 13% to each member of its only affinity group, whose members are the Company’s home office employees.
- The Company does not offer optional repair shop endorsement plans.
- Commercial multi-peril rates are based on a combination of experience and ISO rates. The Company files such rates with the Division prior to use to comply with statutory and regulatory requirements. Property coverage rating criteria include territory, coverage amount and type, property age, protection class and structure type. Liability coverage rates are generally based on the type of business, number of employees, payroll and annual revenue.

- Workers compensation rates are determined by the WCRIB and such rates are filed with the Division.
- The WCRIB conducts audits of the Company's compliance with workers' compensation statistical reporting requirements, including those related to premium rates.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 109 policies issued, renewed or canceled during the examination period, for underwriting and rating testing. Eide compared the credits and debits applied to the policies across the sample, to ensure they were applied consistently on a non-discriminatory basis.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing it appears that credits and debits are applied consistently based on objective criteria.

Recommendations: None.

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

No work performed. Although the Company writes a small amount of workers compensation coverage, there were no workers' compensation or other policies subject to schedule rating in the examination test sample.

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 Department of Insurance.

No work performed. Although the Company writes a small amount of workers' compensation coverage, there were no workers' compensation policies in the examination test sample.

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

No work performed. Although the Company writes a small amount of workers compensation coverage, there were no workers' compensation policies in the examination test sample.

Standard VI-14. Verification of experience modification factors.

No work performed. Although the Company writes a small amount of workers compensation coverage, there were no workers' compensation policies in the examination test sample.

Standard VI-15. Verification of loss reporting.

No work performed. Although the Company writes a small amount of workers compensation coverage, there were no workers' compensation policies in the examination test sample.

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

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

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

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

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

- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges at the inception of coverage.
- 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.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 109 policies issued, renewed or canceled during the examination period, to test whether underwriting, rating and classification are based on adequate information developed at or near the inception of coverage. Eide also reviewed database information, to ensure that adequate information was available at the time of the Company's underwriting decisions.

Transaction Testing Results:

Findings: None

Observations: Based on the results of Eide's testing, it appears that the Company is using underwriting, rating and classification guidelines based on adequate information developed at or near inception of the coverage

Recommendations: None.

Standard VI-18. Audits, when required, are conducted accurately and timely.
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No work performed. See Standard I-1 in Company Operations/Management for discussion of audits by external auditors.

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

M.G.L. c. 175, §§ 2B, 22A, 99, 99B, 111H, 113A and 192; M.G.L. c. 152, § 53A; 211 CMR 131.00.
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Objective: This Standard is concerned with whether policy forms and endorsements are filed with the Division for approval.

M.G.L. c. 175, § 2B describes policy form language, and requires that all items forming a part of the contract be listed on the declaration page and filed with the Division. M.G.L. c. 175, §§ 22A and 113A state that such policy forms must be filed with the Division for approval. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms, and must be filed with the Division for approval prior to use. Pursuant to M.G.L. c. 175, § 113A, policy form approval is required, insurers must give 20 days notice to cancel, and must obtain a certificate of mailing receipt from the post office, and return premium must be disclosed.

M.G.L. c. 175, § 99 outlines policy form requirements including coverage for tenant relocation for landlord multi-unit residential property. M.G.L. c. 175, § 99B outlines form authority and approval for commercial property and multi-peril condominium risks. M.G.L. c. 175, § 111H states insurers shall cover lead exposure claims on liability policies providing coverage to an owner of premises for which a letter of interim or full compliance is in effect. 211 CMR 131.00 outlines requirements, forms and rates for liability coverage for lead in housing. M.G.L. c. 152, § 53A requires that workers' compensation policy forms be filed with the Division.

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

- Company policy requires the use of the standard Massachusetts policy forms and endorsements which are filed with and approved by the Division.
- Producers are required to use such forms and endorsements as guidelines when providing a quote 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: Eide interviewed Company personnel with responsibility for the underwriting process, and selected a sample of 109 policies issued, renewed or canceled during the examination period, to test for the use of appropriate policy forms and approved endorsements in compliance with statutory requirements. The forms used for each policy, along with all endorsements effective on the policy, were compared to the forms approved by the Division. Eide ensured that all relevant aspects of the contract were listed on the policy declaration page.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 113S; 211 CMR 94.00.

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

Pursuant to M.G.L. c. 175, § 113S, pre-inspection of vehicles is required for all but new cars, and cars of existing customers for the past 3 years. 211 CMR 94.00 requires that pre-insurance inspections of vehicles verify the VIN.

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

- The producer is responsible for obtaining the VIN when the application is completed.
- Company policy and procedure requires that pre-insurance inspections of vehicles verify the VIN as required by 211 CMR 94.00.
- The Company's underwriting system compares the VIN to its industry database to ensure its accuracy.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide also performed walkthroughs of transactions to understand the Company's process for entering VINs into the Registry of Motor Vehicles ("RMV") website, and how information related to that VIN is gathered. Eide selected a sample of 42 automobile policies issued, renewed or canceled during the examination period, and examined evidence of the VIN batches for these policies being sent to and returned from the RMV website, to ensure that the VIN number was valid and accurate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 176D, §§ 3(4) and 3A.

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

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

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- The Company conducts compliance audits of its producers regarding required maintenance of certain underwriting information that is retained by the producer.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of the general rating methodology, in accordance with company policies and procedures.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process, and selected 109 policies issued, renewed or canceled during the examination period, to test whether underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 193R.

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

Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby motor vehicle or homeowners' insurance is afforded to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to, or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise. Group rating is allowed, but companies must offer no higher than the same rate in the individual market, and cannot cancel anyone in the group except for fraud or non-payment.

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

- Written underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges, and that underwriting practices are not unfairly discriminatory.
- The Company provides the same premium discount of 13% to each member of its only affinity group, whose members are the Company's home office employees.
- Premium discounts available to affinity groups are filed with and approved by the Division.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the marketing and underwriting processes. Eide selected 109 policies issued, renewed or canceled during the examination period, to test premium discounts including those to its affinity group. Eight of the selected policies were group policies. Eide verified that each policy's affinity group discount was properly applied and not unfairly discriminatory. In addition, Eide conducted a walkthrough of how discounts are applied to understand the process, and to ensure that the policies reviewed in the sample are indicative of the overall procedures in place.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that each of the premium discounts, including those to its affinity group, was properly applied, and that the application was not unfairly discriminatory.

Recommendations: None.

Standard VI-23. All group personal lines property and casualty policies and programs meet minimum requirements.
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M.G.L. c. 175, § 193R.

Objective: This Standard is concerned with whether the Company's underwriting practices and procedures meet minimum requirements, and are in compliance with applicable statutes, rules and regulations.

Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby motor vehicle or homeowner insurance is afforded to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise. Group rating is allowed but companies must offer no higher than the same rate in the individual market and cannot cancel anyone in the group except for fraud or non-payment.

Controls Assessment: Refer to Standard VI-22.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 109 policies issued, renewed or canceled during the examination period, to test whether group policies are properly approved, at the same rates offered in the individual market.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears the Company's group policy underwriting procedures are in compliance with statutory and regulatory requirements.

Recommendations: None.

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

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

Refer to Standard VI-8 for control assessments, testing procedures and testing results.

Standard VI-25. All policies are correctly coded.

Objective: This Standard is concerned with the accuracy of statistical coding.

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

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- CAR conducts periodic audits of the Company's compliance with CAR requirements for business ceded to CAR.
- The Company's policies and procedures require that Company personnel confirm that the coding reported by the producer is correct and current.
- The Company has a process for correcting data errors and making subsequent changes, as needed.
- The WCRIB conducts audits of the Company's compliance with workers' compensation statistical reporting requirements, including those related to premiums.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process, to determine whether there are sufficient controls to ensure accurate and timely completion of statistical reports. Eide sampled 109 policies issued, renewed or canceled during the examination period, to test accuracy, timeliness of completion and inclusion in statistical reports.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VI-26. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation supports decisions made.

Objective: This standard is concerned that signed applications are fully completed, and that file documentation supports the Company's decisions.

Controls Assessment:

- Company policy requires that the underwriting files support its underwriting and rating decisions.
- Producers are responsible for completing applications for new business and obtaining information needed to properly underwrite and rate the policy.
- Company supervisors review all applications completed by producers for completeness and internal consistency.

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

Transaction Testing Procedure: Eide selected 109 policies issued, renewed or canceled during the examination period, to verify that policy application or enrollment forms were properly, accurately and fully completed, including any required signatures, and that file documentation supported the Company's decisions. Forty-two of the 109 policies in the sample were automobile policies.

Transaction Testing Results:

Findings: The files for five of 42 automobile policies tested did not contain documentation to support an anti-theft discount given to the policyholder.

Observations: Eide noted no other violations of this standard during the testing of the remaining policies in the test sample, including 37 automobile policies.

Recommendations: The Company should ensure that its' producers present all required documentation, including support for anti-theft discounts, to the Company when business is submitted. The Company should retain such documentation to support its business decisions.

VII. CLAIMS

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

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

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

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

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

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

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

- Written policies and procedures govern the claims handling process.
- Company policy and claims handling procedures do not distinguish between claims for policies ceded to CAR or those retained by the Company.
- Company policy is to respond to claims within two business days of receiving a notice of claim.
- Written claim forms received via fax or mail are acknowledged in writing within two business days.
- All claim notifications are maintained on a mainframe based automated claims management system.
- The Company complies with the CAR requirement to respond to all physical damage claims within two business days of receiving a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- The Company complies with the CAR requirement to contact all injured persons, or their legal representatives, within two business days of receiving a claim.
- The Company complies with the CAR requirement to contact an uninjured person, or their legal representatives, within three business days of receipt of a claim.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

- Claims management uses exception reports to measure operational effectiveness and claim processing time.
- The Company's policy is to accept or reject all workers' compensation claims within 14 days of the claim filing, in compliance with DIA regulatory requirements.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand the claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 109 claims paid, denied or closed without payment during the examination period, to test the timeliness of the Company's initial contact with claimants. Eide verified the date each selected claim was first reported to the Company, and noted whether the Company's initial response was made in a timely manner according to applicable statutes and Company procedures.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each of the 109 tested claims was reported and investigated according to the Company's policies and procedures, and that responses to claims correspondence were timely. Based upon the results of Eide's testing, it appears that the Company's processes for providing timely responses to claims correspondence are functioning in accordance with their policies and procedures.

Recommendations: None.

<p><u>Standard VII-2. Timely investigations are conducted.</u></p>

<p>M.G.L. c. 176D, § 3(9)(c).</p>
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Objective: The Standard is concerned with the timeliness of the Company's claim investigations.

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

Controls Assessment:

- Company policy is to investigate all claims in a timely manner.
- Refer to Standard VII-1 for additional control assessments.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 109 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified the date that each selected claim was reported to the Company, and noted whether its investigation was conducted in a reasonable and timely manner.

Transaction Testing Results:

Findings: None

Observations: Eide noted that the Company's processes for timely reporting and investigating each of the 109 claims tested are functioning in accordance with their policies and procedures.

Recommendations: None.

<p><u>Standard VII-3. Claims are resolved in a timely manner.</u></p>
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<p>M.G.L. c. 176D, § 3(9)(f); M.G.L. c. 175, §§ 28, 112, 113O and 191A; M.G.L. c. 152, § 7; 211 CMR 123.00.</p>
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Objective: The Standard is concerned with the timeliness of the Company's claim settlements.

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

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

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

M.G.L. c. 175, § 191A requires insureds to give timely notice of a property damage loss to the company or its agent. Further, insureds must also report thefts to the police. The company must pay such claims within 60 days after a proof of loss is filed. The statute also sets forth a process for selecting a disinterested appraiser if the insured and the company fail to agree on the amount of loss.

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

Controls Assessment: Refer to Standard VII-1.

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

Transaction Testing Procedure: Eide interviewed Company claims personnel to understand its claims handling processes, and obtained documentation supporting such processes. Eide selected a sample of 109 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide verified the date each selected claim was reported, and whether it was timely and reasonably resolved by the Company.

Transaction Testing Results:

Findings: None

Observations: Eide noted that the Company's processes for timely reporting and investigating each of the 109 claims tested are functioning in accordance with their policies and procedures.

Recommendations: None.

<u>Standard VII-4. The regulated entity responds to claim correspondence in a timely manner.</u>

M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e); M.G.L. c. 152, § 7.
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Objective: The Standard is concerned with the timeliness of the Company's response to all claim correspondence.

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

M.G.L. c. 152, § 7 requires the insurer to either commence payment of weekly benefits within 14 days of its receipt of an employer's first report of injury or an initial written claim for weekly benefits, or to notify the DIA, the employer, and the employee of its refusal to commence payment.

The notice shall specify the grounds and factual basis for the refusal to commence payment, and must be delivered by certified mail.

Controls Assessment: Refer to Standard VII-2.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 109 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide verified the date each selected claim was reported to the Company, and noted whether it timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each of the 109 claims tested was reported and investigated according to the Company's policies and procedures, and responses to claims correspondence were timely. Based upon the results of Eide's testing, it appears that the Company's processes for providing timely responses to claims correspondence are functioning in accordance with their policies and procedures.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to claim decisions.

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

- Company policy requires that the following items be included in each claim file:
 1. Notice of loss with relevant accident date, accident description and involved parties.
 2. Relevant report from investigating police authorities.
 3. All applicable medical reports and other investigative correspondence.
 4. All legal correspondence.
 5. All pertinent written communication.
 6. All documented or recorded telephone communications.
 7. All claim activity logged in chronological order and documented.
 8. All claim reserve evaluations, adjustments and assessments.
 9. All source correspondence and investigative reports.

- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Company policy and claim handling procedures do not distinguish between claims for policies ceded to CAR or those retained by the Company.
- Claims management uses exception reports to measure operational effectiveness and claim processing time.

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

Transaction Testing Procedure: Eide interviewed Company claim personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected a sample of 109 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears claim files are adequately documented.

Recommendations: None.

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

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

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

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear an unfair trade practice.

M.G.L. c. 175, § 22B prohibits waiver provisions in insurance contracts except as expressly provided. M.G.L. c. 175, § 22I allows companies to retain unpaid premium due from claim settlements. Claim payments must also comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, §§ 111F and 113J. M.G.L. c. 175, § 24E requires an insurer to exchange information with the Commonwealth not less than 10 business days prior to making payment to a claimant who has received public assistance benefits. M.G.L. c. 175, § 24F requires insurers to communicate with the Commonwealth regarding claimants with unpaid taxes. In

addition, M.G.L. c. 175, § 112C requires companies to reveal to an injured party making a claim against an insured, the amount of the limits of said insured's liability coverage upon receiving a request in writing for such information.

M.G.L. c. 175, § 96 states when a building is destroyed by fire, the insurer's liability is limited to the actual cash value of the insured property. M.G.L. c. 175, § 97 states companies must pay fire losses to mortgagees of property upon satisfactory proof of rights and title in accordance with the insurance policy. M.G.L. c. 175, § 97A states that any claimants on fire losses where damages exceed \$5,000 must first submit to the insurer a certificate of municipal liens from the city or municipality, and the insurer shall pay the amount of the lien prior to paying the insured owner, mortgagee, or similar assignee. M.G.L. c. 175, § 100 sets forth standards for selecting a referee when parties to a claim fail to agree on the amount of loss. M.G.L. c. 175, § 102 states insureds under a fire policy are not precluded from recovery by failing to render a sworn statement if they do so upon the Company's appropriate written request.

M.G.L. c. 139, § 3B states companies may not pay claims in excess of \$1,000 on dangerous buildings or structures without first giving 10 days written notice to the building inspector or commissioner appointed pursuant to the state building code, to the fire department and to the Board of Health for the city or town where the property is located.

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

M.G.L. c. 175, § 113K states that persons age 16 and older may purchase automobile insurance.

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

212 CMR 2.00 sets forth uniform procedures for conducting motor vehicle damage appraisals. 211 CMR 133.00 sets forth uniform standards for repair of damaged motor vehicles, but applies only when an insurer pays the costs of repairs. The regulation addresses how damage and repair costs are determined, requires that like kind repair parts be used, and sets forth methods for determining vehicle values. It further allows vehicles deemed a total loss to be repaired subject to certain requirements and limits. Lastly, the regulation requires an insurer to have licensed appraisers conduct "intensified" appraisals of at least 25% of all damaged vehicles for which the damage is less than \$1,000.00, and 75% of all damaged vehicles for which the appraised cost of repair is more than \$4,000.00 for collision, limited collision, and comprehensive claims. The "intensified" appraisal is to determine if the repairs were made in accordance with the initial appraisal and any supplemental appraisals.

Division Bulletin 2008-12 establishes guidelines for the coordination of benefits for personal injury protection and health insurers.

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

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

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

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

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

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

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

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

Whenever such sums include weekly payments, interest shall be computed on each unpaid weekly payment.

Controls Assessment: Refer to Standard VII-1.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected 109 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures.

Transaction Testing Results:

Findings:

- The Company did not include the mortgagee as a payee on one claim payment check issued to the insured for estimated building damage.
- The file for one claim tested did not contain a notice to the building inspector for building damage in excess of \$1,000.
- In five claims tested, the Company did not send the notice to the building inspector for building damage in excess of \$1,000 at least 10 days prior to the payment to the insured.

Observations: Except as stated above, Eide noted no other violations of this standard during the testing of the remaining 102 claims in the test sample, including 51 homeowners' claims.

Recommendations:

- Eide recommends that the Company, upon satisfactory proof of rights and title, ensure that the mortgagee is listed as a payee on claim payment checks issued for estimated building damages.
- Eide recommends that the Company provide the required notice to the building inspector, when payment for building damage exceeds \$1,000, and retain a copy of the notice in the respective claim file.
- Eide recommends that the Company send the required notice to the building inspector at least 10 days before making payment to the insured when building damage exceeds \$1,000.

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

M.G.L. c. 152, § 7.

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

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

Controls Assessment: Refer to Standard VII-1.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected 109 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether its claim reporting was appropriate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all paid, denied or closed without payment claims selected for testing were reported according to the Company's policies and procedures, and that claim forms utilized were appropriate.

Recommendations: None.

Standard VII-8. Claims are reserved in accordance with the regulated entity's established procedures.

Objective: The Standard is concerned with the Company's process to establish and monitor claim reserves for reported losses.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to timely evaluate and establish adequate reserves on all reported claims.
- Company policy requires that the following items be included in each claim file:
 1. Notice of loss with relevant accident date, accident description and involved parties.

2. Relevant report from investigating police authorities.
 3. All applicable medical reports and other investigative correspondence.
 4. All legal correspondence.
 5. All pertinent written communication.
 6. All documented or recorded telephone communications.
 7. All claim activity logged in chronological order and documented.
 8. All claim reserve evaluations, adjustments and assessments.
 9. All source correspondence and investigative reports.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
 - Company policy and claims handling procedures do not distinguish between claims for policies ceded to CAR or those retained by the Company.
 - Claims management uses exception reports to measure operational effectiveness and claim processing time.
 - Claims management performs periodic claims reviews to examine compliance with Company claims policies.
 - Senior management reviews open claims each month claims to evaluate settlement issues and ensure appropriate reserves have been established.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claims reserving processes, and obtained documentation supporting such processes. Eide selected 109 claims paid, denied or closed without payment during the examination period, to evaluate compliance with Company claims reserving policies and procedures. Eide verified the date each selected claim was reported to the Company, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: In one claim tested, the Company did not increase reserves until 75 days after the adjuster recommended that they do so.

Observations: Eide noted no other violations of this standard during the testing of the remaining 108 claims selected for testing.

Recommendations: Eide recommends that the Company timely implement reserve adjustments recommended by adjusters in accordance with Company reserving policies.

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

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

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

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

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

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

Pursuant to M.G.L. c. 152, § 34, while incapacity is total, during each week of incapacity the insurer shall pay the injured employee compensation equal to 60 percent of his or her average weekly wage before the injury, but not more than the maximum weekly compensation rate, unless the average weekly wage of the employee is less than the minimum weekly compensation rate, in which case said weekly compensation shall be equal to his average weekly wage. The total number of weeks of compensation due the employee shall not exceed 156 weeks. Pursuant to M.G.L. c. 152, § 34A, when the injury is both permanent and total, the insurer shall pay to the injured employee, following payment of compensation provided in M.G.L. c. 175, §§ 34 and 35, a weekly compensation equal to two-thirds of the average weekly wage before the injury, but not more than the maximum weekly compensation rate nor less than the minimum weekly compensation rate.

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

M.G.L. c. 152, § 36A states that where any loss is a result of an injury involving brain damage, a lump sum payment resulting from brain damage shall not exceed an amount equal to the average

weekly wage in the Commonwealth at the date of injury, multiplied by 105. Payments shall not be made where death occurs within 45 days of the injury.

Controls Assessment: Refer to Standard VII-1.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected 109 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Eide verified the date each denied claim was reported, reviewed correspondence and investigative reports, and noted whether the Company handled each claim timely and properly before closing or denying it.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that each tested claim was handled according to the Company's policies and procedures. Based on the 109 claims tested, it appears that the Company's claim handling and denial practices are appropriate, and comply with applicable statutes and Company policies and procedures.

Recommendations: None.

Standard VII-10. Canceled benefit checks and drafts reflect appropriate claim handling practices.
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Objective: The Standard is concerned with the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices.

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

- Written policies and procedures govern the claims payment process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- All claims investigations are handled by adjusters up to a defined dollar limit to their settlement authority.
- Company procedures verify the proper payee and payment amount prior to check issuance.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claim payment processes, and obtained documentation supporting such processes. Eide selected 109 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claim payment policies and procedures. Eide reviewed the file for each selected claim, and noted whether claim payment practices were appropriate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

Controls Assessment: Refer to Standard VII-1.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. Eide selected 109 claims paid, denied or closed without payment during the examination period, to evaluate the Company's compliance with its claims handling policies and procedures. Eide verified the date each tested claim was reported, reviewed related correspondence and investigative reports, and noted whether the claim was handled timely and properly.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-12. The regulated entity uses the reservation of rights and excess of loss letters, when appropriate.

Objective: The Standard is concerned with the Company's use of reservation of rights letters, and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- All claim investigations are handled by adjustors up to a defined dollar limit to their settlement authority.
- The Company uses reservation of rights and excess loss letters when warranted.
- Reservation of rights letters are used only when the liability for claims payment has come into question.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claims handling processes and obtained documentation supporting such processes. Eide selected 109 claims paid, denied or closed without payment during the examination period, to evaluate compliance with Company claims handling policies and procedures. Eide reviewed the file for each selected claim, and noted whether reservations of rights or excess loss letters were warranted. Eide also reviewed model correspondence for such letters.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all claims selected for testing were reported and investigated according to the Company's policies and procedures, and claim file documentation was adequate. Eide noted no instances where a reservation of rights or excess loss letter was used. Model correspondence for such letters appeared accurate and proper. Based upon the results of testing, it appears that the Company's processes for utilizing reservation of rights and excess loss letters for claims are functioning in accordance with their policies and procedures.

Recommendations: None.

Standard VII-13. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.

Objective: The Standard is concerned with whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery.

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

- The Company's written claim policies and procedures address subrogated claims.
- Company policy is to resolve all subrogated claims in a timely manner.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. Eide selected 109 claims paid, denied or closed without payment, during the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. Four claims selected for testing involved subrogation. Eide reviewed the file for each selected claim, and noted whether subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that subrogation recoveries for all applicable tested claims were timely and accurate according to the Company's policies and procedures, and claim file documentation was adequate. Based upon the results of testing, it appears that the Company's processes for making subrogation recoveries to insureds are functioning in accordance with their policies and procedures.

Recommendations: None.

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

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

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

Pursuant to M.G.L. c. 175A, § 15(a), insurers must record and report their loss and countrywide expense experience in accordance with the statistical plan promulgated by the Commissioner, and the rating system on file with the Commissioner. The Commissioner may designate a rating agency or agencies to assist her in the compilation of such data. In accordance with 211 CMR 15.00, the Commissioner established and fixed the Automobile Statistical Plan for Fire, Theft, Comprehensive, Collision and Allied Coverages as the statistical plan to be used in accordance with M.G.L. c. 175A, § 15(a). 211 CMR 115.00 requires insurers to report workers' compensation losses and expenses for statistical purposes.

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

- Company policy is to timely report complete and accurate loss data to appropriate rating bureaus.
- The Company reports loss data to CAR in a format required by CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- Company policy and claims handling procedures do not distinguish between claims for policies ceded to CAR, or those retained by the Company. Similarly, no distinction is made between claims on business produced by voluntary agents or ERPs.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the insurance industry in rate hearings before the Commissioner of Insurance.
- Detailed claim data is reported quarterly and/or monthly to CAR and the AIB as required. The claim data includes loss experience by line of business, type of loss, dollar amounts, claim counts, accident dates and territory.
- Claims management personnel reconcile the underlying data for completeness and accuracy, and generate exceptions reports to ensure that loss data is properly reported.
- The WCRIB conducts audits of the Company's compliance with workers' compensation statistical reporting requirements, including those related to claims.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to timely and accurately report loss statistical data to rating bureaus, and its processes are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

SUMMARY

Based upon the procedures performed in this comprehensive examination, Eide 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 Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. Eide made recommendations to address concerns in the areas of Underwriting and Rating and Claims.

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Eide Bailly LLP, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination (“comprehensive examination”) of the Company.

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

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

Matthew C. Regan III
Director of Market Conduct and
Examiner-In-Charge
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Boston, Massachusetts