



THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

Report on the Comprehensive Market Conduct Examination of

*Arbella Mutual Insurance Company
Arbella Protection Insurance Company
Arbella Indemnity Insurance Company*

Quincy, Massachusetts

For the Period January 1, 2015 through December 31, 2015

NAIC COMPANY CODES: 17000, 41360, 10017

NAIC GROUP CODE: 0586

EMPLOYER ID NUMBERS: 04-3022050, 04-3170665, 04-3227818

TABLE OF CONTENTS

	PAGE
SALUTATION	3
SCOPE OF EXAMINATION	4
EXAMINATION APPROACH	4
EXECUTIVE SUMMARY	5
COMPANY BACKGROUND	9
COMPANY OPERATIONS/MANAGEMENT	10
COMPLAINT HANDLING	21
MARKETING AND SALES	25
PRODUCER LICENSING	29
POLICYHOLDER SERVICE	34
UNDERWRITING AND RATING	40
CLAIMS	56
SUMMARY	68
ACKNOWLEDGMENT	69
APPENDIX A – PROPERTY CASUALTY EXAMINATION STANDARDS AND MASSACHUSETTS AUTHORITIES	



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

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll-free (877) 563-4467
<http://www.mass.gov/doi>

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

JAY ASH
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

JOHN C. CHAPMAN
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

GARY D. ANDERSON
ACTING COMMISSIONER OF INSURANCE

August 7, 2017

The Honorable Gary D. Anderson
Acting Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Anderson:

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

ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

at their home offices located at:

1100 Crown Colony Drive
Quincy, MA 02269

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of Arbella Mutual Insurance Company, Arbella Protection Insurance Company and Arbella Indemnity Insurance Company (collectively, "the Company") for the period January 1, 2015 to December 31, 2015 focused on Massachusetts personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, § 4. The examination was conducted at the direction of, and under the overall management and control of, the examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2015 NAIC Market Regulation Handbook*, ("the Handbook") the examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division's financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the Division's financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

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

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

EXECUTIVE SUMMARY

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

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

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

Recommendations and required actions noted in this examination are as follows:

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: Vacated surcharge testing noted that the premium return for one vacated surcharge was not refunded until 91 days from notice of the vacated surcharge in violation of Bulletin 2010-11.

Observations: Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that the Company properly determined original cost new for optional collision and comprehensive coverages. Also, except as noted above, testing of vacated surcharges indicated that at-fault determinations reversed by the Board of Appeal were properly and timely processed in accordance with statutory and regulatory requirements. Finally, at-fault accident determinations and comprehensive claims were timely reported to the Merit Rating Board ("MRB"), and Surcharge Notices were properly provided to at-fault operators.

Required Action: The Company shall ensure that adequate staff is available, and training has been provided, to process all vacated surcharges within 30 days of receipt of the vacated at-fault accident determination by the Board of Appeal.

Subsequent Company Action: The Company has added staff responsible for processing vacated surcharges and has provided relevant training to ensure adequate and qualified staff.

STANDARD VI-7

Findings: Our testing of homeowner declinations indicated that for 17 declinations, the agencies had no declination notices for declined applications in their files. As such, there was no evidence that the notices were provided to declined applicants in violation of the Fair Credit Reporting Act (“FCRA”) and M.G.L. c. 93, § 62.

Observations: Based upon testing of 25 private passenger automobile declinations, the agencies for six declined applications had no declination notices in their files, and for 12 declined applications, the agencies did not respond to the Company’s request for the declination notices, which are required as a matter of Company policy. Other than as noted above, private passenger automobile and homeowners declinations for insurance coverage were not unfairly discriminatory, with proper notices of declination provided to the applicants.

Required Actions: The Company shall adopt new policies, controls, and procedures to ensure that FCRA adverse action notices are provided to homeowners applicants declined coverage for unacceptable credit-based insurance scores. Best practice is for the Company to provide the FCRA adverse action notices to the declined applicants to ensure that the applicants receive the notices. In addition, the Company shall provide training or guidance to staff about these policies, controls, and procedures. Finally, the Company shall conduct an internal or compliance audit by March 31, 2018, or another date acceptable to the Division, to ensure that these required actions have been implemented. The Company shall provide the internal or compliance audit report to the Division.

Recommendation: If the Company wishes to continue requiring agencies to provide private passenger automobile declination notices as a matter of Company policy, since they are not required by regulation, the Company should enforce the Company policy. Alternatively, the Company may wish to no longer require that private passenger automobile declinations be provided by the agencies.

Subsequent Company Actions: On August 18, 2017, the Company began delivering FCRA adverse action notices directly to homeowners applicants declined coverage for unacceptable credit-based insurance scores.

STANDARD VI-8

Findings: RNA testing indicated that one homeowners non-renewal notice did not include a specific reason on the notice in violation M.G.L. c. 175, § 193P.

Observations: For the company-initiated cancellations and non-renewals within the transactions tested, other than as noted above, the Company provided timely and adequate notice to the agencies or policyholders, with the specific reasons for the cancellations or non-renewals properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

Testing noted that some transactions were improperly classified in accordance with NAIC Market Conduct Annual Statement (“MCAS”) Guidelines. Two insured-requested homeowners cancellations were improperly classified as company cancellations, and one company cancellation was improperly classified as an insured-requested cancellation. Also, two cancel and rewrite transactions, due to billing changes from payroll deduct to direct bill, were improperly classified as non-renewals. Finally, four insured-requested

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

cancellations were classified as non-renewals, when insureds cancelled coverage prior to the effective dates of the pending non-renewals.

Required Action: The Company shall ensure that all reasons listed on non-renewal notices are adequately specific in accordance with M.G.L. c. 175, § 193P.

Recommendations: The Company should ensure that transactions are classified in accordance with MCAS Guidelines. Also, the Company should reflect pending non-renewal transactions as insured-requested transactions, when insureds cancel coverage prior to the effective dates of the non-renewals.

Subsequent Company Actions: The Company agrees with the required action, and regarding the recommendations, the Company will begin using newly available data to report transactions as recommended in the 2016 MCAS.

SECTION VII-CLAIMS

STANDARD VIII-5

Findings: None.

Observations: RNA noted each of the tested claims was adequately documented according to the Company's policies and procedures, except that for two private passenger automobile claims and two homeowners claims, the claim files did not fully document and support all settlement offers made, and the rationale for each of the offers. Except as noted above, it appears that the Company's processes for documenting claim files are generally functioning in accordance with its policies and procedures.

Recommendation: The Company should ensure that all settlement offers are well documented and supported in the claims files, as evidence of compliance with the statutory requirement that all offers must be fair and reasonable.

Subsequent Company Action: The Company agrees with the recommendation and will reinforce training on the Company's expectations for a well-documented claim file.

STANDARD VIII-6

Findings: RNA testing noted that seven homeowners property claims files had no evidence that notice letters were provided to municipal authorities in violation of M.G.L. c. 139, § 3B.

Observations: Except as noted above, RNA noted each of the tested claims was handled according to policy provisions and statutory requirements. Based upon testing and except as noted above, it appears that the Company handles claims in accordance with policy provisions and statutory requirements. Finally, upon evaluation of claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall review its procedures and adopt new controls as necessary to ensure that notice letters are timely sent to municipal authorities. The Company shall also provide training or guidance to staff about any new controls and procedures. Finally, the Company shall conduct an internal or compliance audit by December 31, 2017, or another date acceptable to the Division, to ensure that these required actions have been implemented. The Company shall provide the internal or compliance audit report

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

to the Division.

Subsequent Company Actions: The Company has adopted new procedures requiring claim technical staff to send the municipal notice letters when claims have been reported, to expedite the issuance of the letters. The Company will conduct a claims quality assurance audit to ensure that the new process is effective.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

COMPANY BACKGROUND

Arbella Mutual Insurance Company (“Mutual”) is the ultimate controlling entity of the Arbella Group and owns 99% of a downstream holding company, Arbella, Inc. Mutual writes private passenger automobile, homeowners, fire, and umbrella policies in Massachusetts only. Arbella, Inc. owns 100% of Arbella Protection Insurance Company (“Protection”) and 100% of Arbella Indemnity Insurance Company (“Indemnity”).

Protection primarily writes homeowners, commercial automobile, business owners’ protection, commercial liability, and workers’ compensation policies in Massachusetts, Connecticut, New Hampshire and Rhode Island. Protection began writing homeowners business in Massachusetts in 2015. Over 85% of Protection’s business is written in Massachusetts. Indemnity writes homeowners, workers’ compensation and preferred risk commercial automobile policies in Massachusetts and Rhode Island, with nearly all of business written in Massachusetts. Indemnity also began writing homeowners business in Massachusetts in 2015. Mutual, Protection and Indemnity are subject to an inter-company reinsurance pooling agreement whereby underwriting results are pooled and shared proportionately. In addition, management systems, processes and controls are common to the operations of these affiliated companies.

Mutual’s statutory surplus as of December 31, 2015 is \$510.5 million with statutory admitted assets of \$1.33 billion. Protection’s statutory surplus as of December 31, 2015 is \$90.4 million with statutory admitted assets of \$314.8 million. Indemnity’s statutory surplus as of December 31, 2015 is \$14.7 million with statutory admitted assets of \$49.6 million. The Company maintains an A.M. Best financial strength fleet rating of A- (Excellent) with a stable outlook.

Mutual’s 2015 direct premium written is \$610.9 million with 2015 direct paid losses of \$445.0 million. Protection’s 2015 direct premium written is \$201.0 million with 2015 direct paid losses of \$116.3 million. Indemnity’s 2015 direct premium written is \$12.6 million with 2015 direct paid losses of \$6.2 million.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

Objective: This Standard addresses the audit function and its responsibilities. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's Board of Directors and Audit Committee are responsible for compliance matters.
- The Mutual Board of Directors is comprised of 13 directors, including the President and Chief Executive Officer. Seven of the directors are independent directors. The Board of Directors regularly reviews and approves actions to address Company's strategic, financial, and operational risks.
- Four independent directors and a non-independent attorney serve on the Company's Audit Committee, which works with the General Counsel on the Company's regulatory and compliance matters, and oversees the Company's conflict of interest and code of ethics policies. The Audit Committee meets four times a year and meets with the Company's independent auditor.
- The internal audit department reports to the Audit Committee and consists of four full-time auditors. Approximately 300 financial and operational audit areas are categorized as high, medium, or low priority. High priority areas are audited every one to two years, medium priority every three to five years, and low priority every five to seven years. The Audit Committee approves the internal audit plan and monitors the progress and results throughout the year.
- The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers ("CAR") for compliance with statutes and CAR Rules of Operation. CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The underwriting department's analyst completes quality assurance reviews of underwriting work. All underwriters are reviewed monthly to assess their underwriting decisions and documentation. Results are provided to management and to underwriters for training.
- The Company's operations department conducts quality assurance tests using a statistical sample based on annual transaction volume. Monthly testing is completed of new business, endorsements, and cancellations, evaluating processing timeliness and accuracy, data interface exceptions, referrals to the underwriting department, and inconsistent application information. Testing is also completed of customer service requests. Any errors noted are corrected, and the results are incorporated in the representatives' annual performance reviews.
- Agency and agent audits are conducted by the Company through desk audits, with the goal to audit each agency at least once every four years, with problem agencies audited more frequently.
- The Company has established a quality assurance review process whereby claims are reviewed and evaluated for adherence to Company policies and procedures. Two claim files, one open and one closed, are reviewed for each claim representative per month by the claim team manager.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

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

Transaction Testing Procedure: RNA reviewed Board of Director minutes, the internal audit plan and risk assessment, and various internal audit reports.

Transaction Testing Results:

Findings: None.

Observations: The Board of Director minutes, the internal audit plan and risk assessment, and the internal audit reports reviewed by RNA provided detailed information on corporate governance and actions, audit procedures performed, audit findings, and recommendations for improvement.

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.

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

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

- The Company has established a Special Investigation Unit ("SIU") within the claims department to detect, investigate, and deter fraudulent underwriting, agent or claim activity. The SIU promotes the Company's anti-fraud referral guidelines, which identify red flags, and it completes investigations and reports of potential fraud. The SIU consults with fraud counsel and the legal department regularly.
- Company policy is to comply with CAR's SIU performance standards. All auto thefts are reported to the National Insurance Crime Bureau ("NICB").
- Assistant vice-president level employees and above complete annual attestations regarding compliance with the Company's conflict of interest guidelines. All other employees complete such attestations every two years.
- The Company conducts criminal background checks on all employment applicants in accordance with the Criminal Offender Record Information ("CORI"). The results of employee CORI checks are maintained as confidential. The Company generally does not hire anyone convicted of a Federal felony involving dishonesty or breach of trust. If the Company elected to hire such a person, the Company would seek approval from the Division prior to hiring.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

- The Company's Compliance Officer is responsible for compliance with Office of Foreign Asset Control ("OFAC") requirements. All check payees and new insurance applicants are checked daily using WatchDOG Elite software against the Specially Designated Nationals ("SDN") database for any match, and follow-up is performed, as needed.

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

Transaction Testing Procedure: RNA reviewed Company policies and procedures to address antifraud initiatives as part of claims and underwriting testing and reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. All required activity for this Standard will be 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. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's sales distribution is through independent agencies and agents. The Company verifies that agencies are properly licensed as Massachusetts producers prior to contracting with them. The Company's standard agency contract addresses agent authorities, premium accounting and remittance, contract termination, commissions, advertising, indemnification, underwriting policies, and expirations ownership.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

- The Company uses independent field appraisers to supplement its employee field staff in limited situations. The Company uses third party vendors for auto glass claims and car rentals.
- Certain claims litigation defense duties are outsourced to various law firms and attorneys.

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. Further, RNA reviewed the standard agency contract as part of testing in producer licensing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. As part of producer licensing, new and renewal business, and claims testing, RNA reviewed documentation that supports monitoring procedures performed.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has adopted record retention requirements, which are monitored by the Office of the General Counsel.
- The record retention requirements include guidelines for management, record maintenance, record disposal, and the length of time specific documents must be retained.
- Annually, all employees are to review and maintain Company records in accordance with the procedures set forth in the Policy. Also, annually, all managers are required to verify their retention schedules are appropriate and that documents are maintained and destroyed as detailed in their individual department schedule.

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

Transaction Testing Procedure: RNA inquired about the Company's record retention policies and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether the lines of business written by the Company are in accordance with the lines of business authorized by the Division. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's cooperation during the examination. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: The following controls were noted in conjunction with the review of this Standard and Standards I-11 through I-17:

- Company policy requires that a consumer privacy notice be provided to applicants when a new personal lines policy is issued, and annually with renewal notices. The Company also provides the consumer privacy notice and the internet privacy policy on its website.
- Company policy allows for the sharing of personal financial and health information with affiliates and non-affiliates who provide services to the Company. Company policy is to disclose information only as required or permitted by law to regulators, law enforcement agencies, antifraud

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

organizations, and third parties who assist the Company in processing business transactions for its customers.

- The Company does not sell or share information with anyone for marketing purposes, so there is no need to provide policyholders with opt out rights.
- Company management states that it does not obtain investigative consumer reports on customers as part of underwriting, and that the Company does not conduct pretext interviews.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. The Company annually conducts information systems risk assessments to consider, document, and review information technology security threats and controls, and to continually improve information technology systems security.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial, and health information is located.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation its supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test whether a proper privacy notice was provided.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: The Company is not required to offer opt out rights, since the Company does not share information with non-affiliates.

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed documentation supporting the Company's information technology security policies and procedures. Review of information technology access and authorization controls is included in the scope of the Division's ongoing statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's annual reporting of statutorily-required MCAS personal lines data. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA reviewed the 2015 Massachusetts MCAS data for unusual results and data consistency. RNA also reviewed the homeowners underwriting and claims data filed with the Division in 2016.

Transaction Testing Results:

Findings: None.

Observations: RNA's review of the Company's 2015 Massachusetts MCAS data indicated that underwriting and claims data appeared reasonable and consistent with examination data. RNA's review of the homeowners underwriting and claims data filed with the Division indicated no unusual data or concerns.

Recommendations: None.

II. COMPLAINT HANDLING

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

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

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

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

- The Company defines a complaint requiring tracking as any written expression of a grievance in accordance with Massachusetts Law.
- All complaints received from a state insurance department or attorney general are included in the regulatory complaint log, and forwarded to the appropriate business unit for review, response, and preparation of an individual complaint tracking sheet. Claims-related complaints are included in the claims complaint log and directed to the appropriate claim manager to prepare the complaint response. The claim manager reviews the prepared response and supporting information, and sends the response to the regulator. Underwriting managers are the business unit contacts for other than claim-related complaints. Other personal lines business units have procedures similar to claims-related procedures for the handling of written regulatory complaints.
- Better Business Bureau and consumer complaints are handled directly by the business units and are documented in non-regulatory complaint logs. Web-based complaints are monitored by the corporate communication department, which maintains a log of web-based complaints, and forwards them to the appropriate business unit for direct handling.
- The Company's complaint logs contain the line of business for each complaint, the statutory company, the nature of complaints, the disposition of complaints, and the date of receipt and response for the complaints. The Division requests that complaints be answered within 21-28 days from the date the complaint is received. The Company's general policy, when no response due date is provided, is to respond to all complaints within 10 days, when possible.
- The General Counsel reviews all complaint activity to identify any recurring, systemic or potential problems, and reports complaint activity to the Audit Committee as needed.
- The Company uses social media to promote brand awareness and to make public service announcements. The corporate communications department monitors the social media accounts, responds to any negative comments requesting that the consumer contact the Company privately, and refers any follow up response to the appropriate business unit for investigation and a detailed 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.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint registers for 2014-2016 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for 2014-2016 to determine whether they properly contained all Division complaints.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA tested 22 regulatory and 13 non-regulatory complaints from 2014-2016, to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA tested 22 regulatory and 13 non-regulatory complaints from 2014-2016 to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints tested. Documentation for the complaints appeared complete, including the original complaints and related correspondence. Policyholders and consumers with similar fact patterns appeared to be treated consistently and fairly.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA tested 22 regulatory and 13 non-regulatory complaints from 2014-2016, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Observations: The Company appeared to address timely each of the tested Division complaints. Complaints sent directly to the Company also appeared to be addressed timely. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

III. MARKETING AND SALES

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

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

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

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

- The Company's sales and promotional materials focus on branding, general name recognition, and customer attraction, through radio and internet banner ads. Any such materials are approved by the legal department prior to use.
- The Company prepares various brochures promoting key products or targeted markets with the assistance of subject matter experts in product design, underwriting, actuarial, and operations. Also, sales materials are developed for agencies to use when they market the Company's products. All brochures and sales materials are approved by the legal department prior to use.
- Advertising material developed by agents require home office approval as required by the Company's agency contracts. All such agency-produced material or local advertising is reviewed and approved by the legal department prior to use.
- The Company maintains logs to track all advertising and sales materials.
- The Company discloses its name and address on its website.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for sales and marketing. RNA reviewed advertising and sales materials logs and various social media websites for reasonableness. RNA also reviewed the Company's website for disclosure of its name and address. Finally, RNA sought any sales and marketing materials noted as part of new and renewal business testing for any evidence of use of unapproved sales and marketing materials.

Transaction Testing Results:

Findings: None.

Observations: The advertising and sales materials logs appeared reasonable, and the use of social media sites was limited to promoting brand awareness. Also, the Company's website disclosure complies with Division requirements. Finally, RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: None.

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

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

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

- Producers from newly appointed agencies receive on-site training, or training through Arbella University, regarding the Company's products and compliance matters.
- The Company's eight Massachusetts field marketing representatives periodically visit all independent agencies to provide training and guidance regarding underwriting guidelines, new products, use of the Company's agent portal, and general policies and procedures.
- The Company conducts regional sales meetings and educational sessions for its agencies twice a year with educational sessions included in the meetings.
- Continuing education requirement compliance is monitored by the agencies, which receive reimbursement for educational costs from the Company.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for sales and marketing, and for providing training to independent agencies.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's producer training process appears reasonable and appropriate.

Recommendations: None.

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

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

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for sales and marketing, and for providing communications to independent agencies. RNA also reviewed any producer communications for reasonableness as part of new and renewal business testing.

Transaction Testing Results:

Findings: None.

Observations: Based on review, procedures for independent agency communications appear appropriate and reasonable. RNA noted no evidence of the use of unreasonable producer communications as part of new and renewal business testing.

Recommendations: None.

Standard III-4. The regulated entity's mass marketing of property/casualty insurance is in compliance with applicable statutes, rules and regulations.

Objective: This Standard addresses the Company's marketing to individuals as members of employer or other groups by the Company's producers in accordance with regulatory requirements and Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company uses affinity discounts to market its policies to employer-sponsored groups, community groups, associations, church parishes, and other groups.
- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans.
- The Company's mass marketing plans are filed with the Division for prior approval.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements for mass marketing plans offered to individuals who are members of employer-sponsored groups, community groups, associations, church parishes, and other groups.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for implementation of mass marketing plans offered to individuals, who are members of employer-sponsored groups, community groups, associations, church parishes, and other groups. RNA reviewed any affinity discounts granted to such individuals as part of new and renewal business to ensure that the discounts agreed to those approved by the Division.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Observations: Based on review and testing, procedures for implementation of mass marketing plan offered to individuals, who are members of employer-sponsored groups, community groups, associations, church parishes, and other groups appear appropriate and reasonable. As part of new and renewal business, RNA noted five policies where affinity discounts were provided to insureds.

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 and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.

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

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

- The Company uses independent agencies and individual agents to produce business.
- The Company's field marketing representatives recruit experienced producers, who wish to sell the Company's products. A written application must be completed by any producer seeking an agency appointment with the Company. The applications are reviewed by the Company, and the Company conducts criminal and license background checks on the applicants. All new agency contracts require the approval of the marketing, underwriting, and the operations departments.
- The Company's standard agency contract's terms and conditions address proper licensure, maintenance of records, binding authority, claim reporting, commission rates, premium accounting, advertising, termination/suspension provisions, and expirations ownership.
- The agencies are required to maintain errors and omissions coverage in the amount of \$1 million per claim and \$3 million in aggregate.
- All agencies or agents are appointed through the Division's On-Line Producer Appointment ("OPRA") System.
- Agency commissions are paid monthly based on prior month activity. Advances are rare, but the Company may advance a portion of future profit sharing payments.
- Annual disclosure is made each policyholder regarding the payment of a commission to the agency or agent for the sale.
- The Company completes a monthly reconciliation of its agency and agent appointment and termination records with the Division's records, and makes corrections to the records as necessary.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to determine whether the agency or agent for each policy was included on the Division's list of the Company's appointed agencies or agents. Also, as part of the appointment termination testing, any unusual appointment information was reviewed.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- Producer sales and marketing training is tailored to meet the needs of the Company's independent agencies and agents under contract with the Company.
- The Company's eight Massachusetts field marketing representatives periodically visit all independent agencies to provide training and guidance regarding underwriting guidelines, new products, use of the Company's agent portal, and general policies and procedures.
- The Company conducts regional sales meetings and educational sessions for its agencies and agents twice a year with educational sessions included in the meetings.
- Continuing education requirement compliance is monitored by the agencies, which receive reimbursement for educational costs from the Company.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, agent appointments, and continuing education. RNA also reviewed the standard independent agency contract for responsibility related to agent continuing licensure requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, independent agencies and agents are solely responsible for monitoring and maintaining compliance with the Division's producer continuing education requirements.

Recommendations: None.

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

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

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

- All Massachusetts agency and agent terminations are processed through the Division's OPRA using the date that renewal business is no longer accepted by the Company.
- The Company's policy is to give written notice to all agencies and agents whose appointments are terminated.
- The Company's policy is to give additional information to the Division about agencies and agents whose appointments are terminated "for cause" including the reason for the termination.
- The Company completes a monthly reconciliation of its producer appointment and termination records with the Division's records, and makes corrections to the records as necessary.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and appointment termination processing. RNA selected 25 agency and agent appointment terminations and compared those to information on the Division's appointment termination records. Further, RNA reviewed evidence that notices to the Division and the agencies and agents complied with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company properly notified the Division of agency and agent terminations through OPRA in compliance with statutory requirements. Also, the notices to the agencies and agents met statutory requirements.

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

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

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. In conjunction with testing of 25 private passenger automobile policies, 25 homeowners policies issued or renewed, and 25 agency and agent appointment terminations during the examination period, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's producer appointment and termination policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, no evidence of unfair discrimination against policyholders was noted based on the Company's producer appointment and termination policies.

Recommendations: None.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and appointment termination processing. RNA selected 25 agency and agent appointment terminations during the examination period, and reviewed the reasons for each appointment termination. RNA also inquired about any agency and agent that was terminated "for cause" during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's internal records adequately document reasons for appointment terminations. None of the tested appointment terminations was "for cause" as defined by statute.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

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

No work performed. This Standard is not covered in the scope of examination because the Company's direct bills substantially all personal lines premium. Thus, excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the Division's 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.

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

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

- Billing of personal lines customers is primarily by direct bill in a maximum of 10 installments paid by check, electronic funds transfer, debit or credit card, on-line banking, or automated clearing house transaction. Direct billed policyholders are billed 20 days in advance of the due date. The Company also offers payroll deduction billing through the insured's employer. A small number of personal lines policies are agency billed.
- A 10% down payment for private passenger automobile business and 20% for homeowners business is generally required at the application date. If the agency fails to collect the down payment, coverage will be bound, and the Company will direct bill the customer for the down payment.
- If installment payments are not timely made, or payments are deemed insufficient from the customer's financial institution, a notice of cancellation is sent to the insured stating that the policy will cancel in 23 days if the payment is not made. If after 23 days the payment has not been made, a notice of cancellation is sent notifying the customer that the policy has been cancelled. For electronic fund transfer customers, who have insufficient funds in their checking or savings account, a second attempt to collect the payment is made. If that is unsuccessful, the Company contacts the insured to make other payment arrangements.
- Any earned premiums due through the effective date of cancellation are referred to an un-affiliated collection agency for collection. Earned premiums for private passenger automobile business are entered by the Company at the Registry of Motor Vehicles ("RMV") to notify any new insurers of the outstanding debt to the Company.
- Customers receive a renewal notice and down payment bill from the Company 30-45 days prior to the policy renewal effective date, with the payment due on the policy effective date.
- The Company's customer service department answers general questions about the insured's policy or billing, and can make billing changes. Also, policy information, such as vehicle information, addresses, and insured name can be corrected, but not changed.
- The Company has developed standards for billing and collections, and monitors compliance with those standards.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether the Company has procedures to ensure that policyholder cancellation requests are processed accurately and timely. Policy issuance testing is included in Standard VI-6. See Appendix A for applicable statutes, regulations and bulletins.

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

- Policyholders must cancel coverage through their agencies and agents. Policyholders may cancel their private passenger automobile policy after providing a Form 2A, Notice of Transfer of Coverage, a returned plate receipt showing proof that the vehicle has been taken out of service, or evidence that the policyholder has moved out of Massachusetts. Any unearned premium is refunded to the policyholder on a pro-rata basis or a short rate table basis in accordance with CAR Rules.
- Requests to cancel homeowners coverage is also processed by the agencies through a signed written request to cancel coverage, with unearned premium refunded on a pro-rata 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: RNA interviewed Company personnel with responsibility for policyholder service, and tested 10 private passenger automobile and nine homeowners insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the insured-requested cancellations appeared to be processed accurately and timely. Also, premium refunds appear to be returned timely.

Recommendations: None.

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

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

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

- The Company considers its agencies and agents as having the primary relationship with the policyholder. Since customer service representatives are not licensed producers, policyholders must request endorsements and policy changes through their agencies and agents. Policyholders who request such changes through customer service can be transferred to the agencies or agents for servicing.
- The Company's customer service department answers general questions about the insured's policy or billing, and can make billing changes. Also, policy information, such as vehicle information, addresses, and insured name can be corrected, but not changed.
- The Company monitors customer service call centers to ensure that adequate resources are available to address customer inquiries.
- Internet inquiries are addressed by the appropriate business unit. Requests are tracked for completion and documented.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. The Company has not entered into assumption reinsurance agreements.

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

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

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

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

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

- The Company will research its systems for an updated address when returned mail is received. Agencies and agents are also notified of the returned mail, and asked to contact the customer to obtain a correct address for future mailings, and to make any needed address changes.
- When premium notices and premium checks are returned to the Company as undeliverable, the Company will use systems information available to determine a more current mailing address to mail bills, legal notices of cancellation, and premium checks to the insured. Prior to mailing directly to the insured, the Company confirms that the premium check has not been voided, and is therefore cashable. When no new mailing address can be obtained, the Company mails these documents to the agencies and agents, notifying them that a new address is needed and should be provided to the Company.
- The accounting department frequently reviews the outstanding check listing report for the Company's bank accounts. Research is performed on the outstanding checks by various departments to ensure valid outstanding items. Company policy requires that un-cashed checks including claims, premium refunds, commissions, and vendor payments be reported and escheated when the owner cannot be located.
- The Company's procedures are to send the final due diligence letters to consumers at least sixty days prior to the escheatment date. The accounting department sends due diligence letters for premium and commission checks over \$100, and for claim and vendor checks over \$50.
- Various operational departments are responsible for the correspondence from due diligence letters. In general, the claim department is responsible for the claim checks; the billing and commissions department is responsible for the commission checks and for premium checks, and accounts

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

payable is responsible for vendor checks. Based on the correspondence received, checks may be re-issued or voided. Outstanding checks that have not been re-issued or voided will be escheated based on the last known address. The accounting department confirms escheatable amounts with the various departments before escheating the final unclaimed funds.

- Outstanding checks are considered unclaimed property in Massachusetts when outstanding for three years. The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1 as required by statute.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- The Company's claims personnel and agencies have access to policyholders' claims history and paid loss information.
- The Company's policy is to directly provide, or ask the agencies to provide, a policyholder with his or her claims history and paid loss information upon request.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

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

Transaction Testing Procedure: RNA discussed with Company personnel its policies and procedures for responding to policyholder inquiries regarding claims history and paid loss information. Further, RNA reviewed claim documentation for any evidence of the Company being non-responsive to policyholder inquiries on claim history and paid loss information in testing of underwriting and rating, claims, complaints, and policyholder service.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

VI. UNDERWRITING AND RATING

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

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

Objective: This Standard addresses whether the Company is charging premiums using properly filed rates and in a non-discriminatory manner. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- Underwriting is generally automated with most applications accepted, electronically rated, and processed using standard underwriting algorithms.
- The Company's private passenger automobile underwriting system interfaces with the RMV to obtain real-time information on Massachusetts and out-of-state drivers.
- The Company uses the standard private passenger automobile Massachusetts merit rating system through the MRB Safe Driver Insurance Plan.
- The Company has established private passenger automobile underwriting criteria for acceptance or rejection of new business risks using an algorithm, which focuses on optional bodily injury limits, number of years with prior carrier, whether collision coverage is sought, operator to vehicle ratio, operator at-fault losses over the prior six years, operator convictions over the prior six years, the eligibility of the risk for Massachusetts Automobile Insurance Plan credit, mileage, and other underwriting criteria.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents. When the claims function notifies the underwriting function of the at-fault determination, the Company's underwriting function provides operators and the MRB required at-fault accident determination notices, known as "Surcharge Notices", with the standard form to appeal the decision to the Board of Appeal.
- The Company reports at-fault accident determinations to the Comprehensive Loss Underwriting Exchange ("CLUE") weekly.
- The personal lines operations department receives notice of vacated surcharges from daily MRB Notices to Re-inquire, or from summaries of hearing dockets with the Board of Appeal's decisions, and the staff update the surcharge status in underwriting system. Premium refunds are applied as required to the insured's relevant policies within 30 days of receipt of the vacated surcharge decision. A revised declaration page is sent to the insured showing the processing of the vacated surcharge.
- Private passenger automobile rates are based on the Automobile Insurer's Bureau of Massachusetts ("AIB") Manual with modifications, with all rates filed with the Division prior to use. Motorcycle

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

premium rating for comprehensive and collision coverages is based on original cost new or similar values.

- The Company has established homeowners underwriting criteria for the acceptance and rejection of new risks which includes, adequate insurance to replacement value, coastal risk guidelines, certain dog breeds, vacant homes, excessive loss history, and dangerous property conditions. Distance to coast software is used to determine whether the risk meets the coastal guidelines.
- Premium rates for homeowners policies are determined using the Company's experience. Discounts available include account credit, new home credit, protective device credit, and the loss mitigation credit. Surcharges may include those for multi-family risks, dogs, woodstoves, and excessive loss history.
- The Company has many Division-approved affinity groups and related discounts. Individual risks within these groups cannot be cancelled or non-renewed.
- All approved rates are loaded in the Company's new business processing system and are tested extensively prior to use. Also, the Company manually tests various policies to ensure that the rates have been properly programmed consistent with the Company's filed rates.
- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules of Operation. CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The underwriting department's analyst completes quality assurance reviews of underwriting work. All underwriters are reviewed monthly to assess their underwriting decisions and documentation for compliance with policies and procedures. Results are provided to management and to the underwriters for training.
- The Company's operations department conducts quality assurance tests using a statistical sample based on annual transaction volume. Testing is completed monthly of new business, endorsements, and cancellations, evaluating processing timeliness and accuracy, data interface exceptions, referrals to the underwriting department, and inconsistent application information. Testing is also completed of customer service requests. Any errors noted are corrected, and the results are incorporated in the representatives' annual performance reviews.
- Agency and agent audits are conducted by the Company through desk audits, with the goal to audit each agency at least once every four years, with problem agencies audited more frequently.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. For each of these test selections, RNA verified that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate. RNA also selected 25 motorcycle policies to test rates charged, and valuations used for comprehensive and collision coverages.

RNA also tested 50 vacated at-fault accident determinations by the Board of Appeal for accurate and timely reversal of premium surcharges. Additionally, during private passenger automobile claims testing, RNA assessed whether at-fault accident determinations were properly reported to the MRB with Surcharge Notices timely provided to operators in accordance with statutory and regulatory requirements.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Transaction Testing Results:

Findings: Vacated surcharge testing noted that the premium return for one vacated surcharge was not refunded until 91 days from notice of the vacated surcharge in violation of Bulletin 2010-11.

Observations: Based upon testing, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that the Company properly determined original cost new for optional collision and comprehensive coverages. Also, except as noted above, testing of vacated surcharges indicated that at-fault determinations reversed by the Board of Appeal were properly and timely processed in accordance with statutory and regulatory requirements. Finally, at-fault accident determinations and comprehensive claims were timely reported to the MRB, and Surcharge Notices were properly provided to at-fault operators.

Required Action: The Company shall ensure that adequate staff is available, and training has been provided, to process all vacated surcharges within 30 days of receipt of the vacated at-fault accident determination by the Board of Appeal.

Subsequent Company Action: The Company has added staff responsible for processing vacated surcharges and has provided relevant training to ensure adequate and qualified staff.

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

Objective: This Standard addresses whether all mandated disclosures for rates and coverages are timely provided to insureds in accordance with statutes and regulations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system's controls are designed to ensure that new business submissions are accurate and complete, including the use of all Company-required forms and instructions.
- The Company provides private passenger automobile information guides and other sales disclosures to consumers electronically or by mail.
- The Company's insurance policies and attachments provide disclosures as required by 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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has procedures for paying agency commissions in accordance with written contracts.
- The Company's agency contracts, policies, and procedures are designed to comply with statutory underwriting and rating requirements, which prohibit special inducements and rebates.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for commission processing and producer contracting. In conjunction with new and renewal business testing, RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to review commissions paid to agencies, and for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses the AIB Massachusetts private passenger automobile form, which has been approved by the Division.
- Company policy requires that all private passenger automobile and homeowners policy forms and endorsements be filed and approved by the Division prior to use.
- Approved private passenger automobile and homeowners forms and endorsements are required to be used when providing quotes to customers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- Any changes in policy coverage must be requested through the agency.
- The underwriting department's analyst completes quality assurance reviews of underwriting work. All underwriters are reviewed monthly to assess their underwriting decisions and documentation for compliance with policies and procedures. Results are provided to management and to the underwriters for training.
- The Company's operations department conducts quality assurance tests using a statistical sample based on annual transaction volume. Testing is completed monthly of new business, endorsements, and cancellations, evaluating processing timeliness and accuracy, data interface exceptions, referrals to the underwriting department, and inconsistent application information. Testing is also completed of customer service requests. Any errors noted are corrected, and the results are incorporated in the representatives' annual performance reviews.
- Agency and agent audits are conducted by the Company through desk audits, with the goal to audit each agency at least once every four years, with problem agencies audited more frequently.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the fairness of application rejections and declinations including issuance of proper declination notices. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- The Company accepts most private passenger automobile applications with the risks electronically rated using standard underwriting algorithms.
- The agents provide private passenger automobile applicants with oral or written notices, when applicants do not meet the Company's minimum standards for coverage.
- The Company's homeowners and condominium policies are written Mutual, Indemnity, and Protection. Placement in the underwriting companies is determined by the applicant's LexisNexis credit-based insurance score, with Indemnity being the preferred rate company, Mutual being the standard rate company, and Protection being the higher than standard rate company. A disclosure is provided with Protection policies that the insured was placed in the higher than standard rate company.
- Those applicants not meeting the minimum insurance score requirement are declined. The agency is made aware of the placement of the risk in the specific underwriting company, or if the applicant's insurance score is not acceptable. For those insurance scores that cannot be determined, the agency must contact the Company for resolution. For applicants declined due to unacceptable credit-based insurance score, the agency is to provide a written adverse action notice to the applicant in accordance with the FCRA and Massachusetts Law. Those notice copies are to be maintained by the agencies for five years, and are subject to the Company's underwriting desk audit process.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile and 50 homeowners declinations processed during the examination period to ensure that declinations were not unfairly discriminatory.

Transaction Testing Results:

Findings: Our testing of homeowner declinations indicated that for 17 declinations, the agencies had no declination notices for declined applications in their files. As such, there was no evidence that the notices were provided to declined applicants in violation of the FCRA and M.G.L. c. 93, § 62.

Observations: Based upon testing of 25 private passenger automobile declinations, the agencies for six declined applications had no declination notices in their files, and for 12 declined

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

applications, the agencies did not respond to the Company's request for the declination notices, which are required as a matter of Company policy. Other than as noted above, private passenger automobile and homeowners declinations for insurance coverage were not unfairly discriminatory, with proper notices of declination provided to the applicants.

Required Actions: The Company shall adopt new policies, controls, and procedures to ensure that FCRA adverse action notices are provided to homeowners applicants declined coverage for unacceptable credit-based insurance scores. Best practice is for the Company to provide the FCRA adverse action notices to the declined applicants to ensure that the applicants receive the notices. In addition, the Company shall provide training or guidance to staff about these policies, controls, and procedures. Finally, the Company shall conduct an internal or compliance audit by March 31, 2018, or another date acceptable to the Division, to ensure that these required actions have been implemented. The Company shall provide the internal or compliance audit report to the Division.

Recommendation: If the Company wishes to continue requiring agencies to provide private passenger automobile declination notices as a matter of Company policy, since they are not required by regulation, the Company should enforce the Company policy. Alternatively, the Company may wish to no longer require that private passenger automobile declinations be provided by the agencies.

Subsequent Company Actions: On August 18, 2017, the Company began delivering FCRA adverse action notices directly to homeowners applicants declined coverage for unacceptable credit-based insurance scores.

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

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

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

- Private passenger automobile cancellations for underwriting are usually for driver license suspension, material misrepresentation, auto registration suspension or revocation, earned premium owed to a prior auto insurer, or invalid registration. In these instances, a notice of cancellation, including the specific reason, is sent to the policyholder and the agent 23 days prior to cancellation.
- Homeowners cancellations for underwriting are usually for vacant or non-owner occupied properties, excessive losses, failure to meet underwriting guidelines, failure to cooperate, or poor premium payment history. Notices are sent to the insureds and mortgagees at least 23 days prior to cancellation, with a copy of the notices sent to the agents. The specific reason is stated on the notices.
- For risks not meeting underwriting requirements at renewal, the non-renewal notice, including the specific reason, is provided to the agency at least 45 days prior to renewal, with the agency having 15 days to give notice of non-renewal to the policyholder, or to replace coverage. For non-renewals where the reason is that the agencies have lost their agency appointments, the notices are sent directly to the policyholders.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. For testing, RNA selected transactions reported as follows: 25 private passenger automobile cancellations, 25 homeowners company-initiated cancellations, 25 private passenger automobile non-renewals, and 25 homeowners non-renewals. All transactions were evaluated for compliance with statutory requirements.

Transaction Testing Results:

Findings: RNA testing indicated that one homeowners non-renewal notice did not include a specific reason on the notice in violation M.G.L. c. 175, § 193P.

Observations: For the company-initiated cancellations and non-renewals within the transactions tested, other than as noted above, the Company provided timely and adequate notice to the agencies or policyholders, with the specific reasons for the cancellations or non-renewals properly disclosed. The specific reasons were reasonable and in compliance with statutory requirements.

Testing noted that some transactions were improperly classified in accordance with MCAS Guidelines. Two insured-requested homeowners cancellations were improperly classified as company cancellations, and one company cancellation was improperly classified as an insured-requested cancellation. Also, two cancel and rewrite transactions, due to billing changes from payroll deduct to direct bill, were improperly classified as non-renewals. Finally, four insured-requested cancellations were classified as non-renewals, when insureds cancelled coverage prior to the effective dates of the pending non-renewals.

Required Action: The Company shall ensure that all reasons listed on non-renewal notices are adequately specific in accordance with M.G.L. c. 175, § 193P.

Recommendations: The Company should ensure that transactions are classified in accordance with MCAS Guidelines. Also, the Company should reflect pending non-renewal transactions as insured-requested transactions, when insureds cancel coverage prior to the effective dates of the non-renewals.

Subsequent Company Actions: The Company agrees with the required action, and regarding the recommendations, the Company will begin using newly available data to report transactions as recommended in the 2016 MCAS.

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

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

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.
- The Company states that although rare, rescissions, are usually related to claims filed where material misrepresentations were made by the insureds. In these instances, all policy premium for the current term is returned, and coverage is rescinded effective at the beginning of the current policy term.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process, and discussed procedures for rescissions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

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

Standard VI-14. Verification of experience modification factors.

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

Standard VI-15. Verification of loss reporting.

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

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

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

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

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

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

- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at, or near, the inception of coverage.
- 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: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at, or near, inception of coverage. RNA also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

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

Recommendation: None.

Standard VI-18. Audits, when required, are conducted accurately and timely.

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

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

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

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

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

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

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The agencies are responsible for obtaining the VIN and vehicle symbol when the application is completed.
- The Company's underwriting system compares the VIN and vehicle symbol to its industry database to ensure that both are accurate.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile policies issued during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's underwriting policies and practices do not

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

appear to be collusive or anti-competitive.

Recommendations: None.

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

Objective: This Standard addresses whether unfair discrimination is occurring in insurance underwriting for mass marketing plans offered individuals as members of employer or other groups. See Standard VI-7 for testing of declinations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to individuals who are members of employer-sponsored groups, community groups, associations, church parishes, and other groups.
- The Company's mass marketing plans are filed with the Division for approval.
- The Company uses affinity discounts to market its policies to individuals who are members of employer-sponsored groups, community groups, associations, church parishes, and other groups.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements for mass marketing plans.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to ensure that underwriting practices for plans offered to individuals who are members of employer or other groups were not unfairly discriminatory. RNA reviewed affinity discounts granted to such individuals as part of new and renewal business, to ensure that the discounts agreed to those approved by the Division. During this testing, RNA sought evidence of any unfair discrimination in underwriting these policies and examined evidence of the Division's approval of the affinity premium discounts.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence that the Company's underwriting practices for mass marketing plans offered to individuals, who are members of employer or other groups are unfairly discriminatory. All affinity premium discounts were applied properly and approved by the Division.

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

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

No work performed. This Standard is not covered in the scope of examination because the Company does not offer group products.

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

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

Standard VI-25. All policies are correctly coded.

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

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

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company has processes to reconcile statistical and financial data, to correct data coding errors, and to make subsequent reporting changes, as needed.
- The Company's policy is to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB, CAR, and the Insurance Services Office ("ISO").
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements 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: RNA interviewed Company personnel with responsibility for the underwriting process and the statistical reporting process. RNA selected 25 private passenger automobile policies and 25 homeowners policies issued or renewed during the examination period, to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

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

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Recommendations: None.

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

Objective: This Standard addresses whether policy file documentation adequately supports decisions made in underwriting and rating. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- Agencies retain signed applications in their files, and their files are subject to audit by the Company.
- Underwriting systems controls are designed to ensure electronic applications are complete.
- Certain risks are referred to the underwriting department to determine whether they should be accepted or rejected.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA discussed processes to audit the agency files to ensure that signed applications are retained in their files.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's policy for auditing agency files to ensure they are retaining signed applications appears reasonable and sufficient.

Recommendations: None.

VII. CLAIMS

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

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

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

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

- The claims department consists of approximately 385 employees in four Massachusetts field office locations, 10 drive-through claim centers, and the home office. The field offices and drive-through claim centers adjudicate automobile claims, while claims for other lines of business are handled by the home office staff. The claims staff is organized by line of business and functional units that handle subrogation, automobile appraisals, the SIU, and a service center that handles all first notices of loss and claims-related mail.
- Each functional unit is supervised by a claims manager that reports to the Claims Vice-President. The claims managers supervise teams of claims representatives and adjusters. Individual claim settlement authority limits are assigned commensurate with claims representative's experience. In addition, the Company utilizes a few contract adjusters in times of heavy volume.
- All personal lines claims are processed and documented using the Company's claims system, which provides claims and financial processing with notes, document storage and retrieval, and a diary workflow system using Massachusetts-related business rules.
- All claims are reported to the claims service center by fax, electronically by agents, or through the Company's 800 phone number, with the information received scanned into the claim system. A claim number is established, and the service center assigns a claims representative immediately. The claims representative is to contact the claimant within 24 hours.
- Claims are investigated to determine existence of coverage, and an initial liability determination is made. Information from police reports, witness statements, photographic evidence, and consumer reporting agencies are used to evaluate the claim. Also, the ISO claims database is checked for prior claim activity.
- The Company follows standard industry and CAR claim handling guidelines in its claim investigations, including the use of Massachusetts standards of fault. Automobile glass claims and rental car services are outsourced to third parties. Employee field appraisers are dispatched for automobile physical damage, and property damage claims or claimants may utilize one of the Company's drive-through claim centers. The Company has an approved repair shop program, and the list of repair shops is updated quarterly and provided to the claimant with the appraisal.
- For homeowners property claims, the Company's process for reporting claims greater than \$1,000 to municipal authorities is to send the required letter to the appropriate municipality shortly after the claim is filed.
- The Company uses an internally-developed bodily injury evaluation methodology and documents the damages analyses in a bodily injury evaluation worksheet, which is periodically updated as additional information is obtained. The Company states that its policy is to make settlement offers between the low and high settlement estimates, with any exceptions reviewed by management and

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

the rationale supported in the claim notes. Unit managers review each active bodily injury claim after the initial 90 days and periodically thereafter.

- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database as required in Massachusetts. For OFAC compliance purposes, the Company's claim's system screens all claim payments against the SDN list.
- The Company reports at-fault accident determinations to the CLUE weekly. The claim system automatically sends an at-fault determination notice to policyholders, drivers and their agencies noting their right to appeal, when liability is determined to be greater than 50% and the claim is over \$500. The Company also reports required private passenger automobile claims to the MRB as required by Massachusetts Regulations.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise. These letters, along with any claim denial letters, require management approval before being sent.
- The claims representatives complete Department of Revenue checks and document the search results in the claims system. Underwriting risk referrals are made to the underwriting department when necessary. Generally, no liability release is required from insureds, unless the claim involves other parties who were underinsured or not insured. Third party claimants are not required to sign a liability release unless there is a settlement dispute or general damages awarded.
- For homeowners property claims, a signed proof-of-loss statement is required for settlements exceeding \$30,000. The Company withholds depreciation on homeowners' replacement cost coverage settlements, and such claims are closed after one year if the claim is less than \$100,000. These claims will be re-opened for payment of withheld amounts, if the claimant provides proof of repairs prior to expiration of the two-year statute of limitations.
- The Company has identified fraud indicators for use by claims representatives. When the indicators are noted, fraud referrals are made to the SIU. Auto thefts are reported directly to the NICB. Fraud referrals to the SIU are primarily for auto thefts, potentially staged accidents, and premium fraud related to garaging location that is identified when a claim is filed. Premium fraud often results in denied claims, as permitted in the automobile policy. In rare cases, the additional premium may be collected and the claim paid, which is also permitted under the policy. Once the referral is made, the SIU takes full responsibility for handling the claim until it is closed. The SIU unit is responsible for coordinating with the Division's Insurance Fraud Bureau, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution. CAR also has established SIU performance standards.
- Criteria for team managers' periodic reviews of the adjusters' work have been established, and such reviews are documented in the claims system. Generally, supervisors are required to complete their first review of the claim at 30 days, with follow up reviews as needed.
- The Company produces metric reports for the daily, weekly, and monthly claims reporting of key service and quality metrics. The claims system also produces monthly reports, which summarize claim volume, paid loss trends, claims settlement timeframes, SIU activity, subrogation, and customer survey results. Large loss reports for claims greater than \$100,000 are required. For those claims with exposure greater than \$250,000, there is a comprehensive roundtable process.
- The Company has established a quality assurance review process whereby claims are reviewed and evaluated for adherence to Company policies and procedures. Two claim files, one open and one closed, are reviewed for each claim representative per month by the claim team manager.
- The Company conducts random post-claim payment surveys to first party insured personal lines claimants. Five questions are asked about the claims process, customer satisfaction, and the likelihood that the insured would recommend the Company to others. The surveys are mailed by the Company with selected claim payments. Surveys are returned to and controlled by the home office. Negative responses are investigated by a claims manager, who will contact the claimant. Survey results are tracked and evaluated.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, claims were investigated timely according to the Company's policies and statutory requirements.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was resolved in a timely manner in accordance with Company's policies and statutory requirements related to timely handling. Based upon testing, it appears that the Company's processes for timely handling claims are generally functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA tested each selected claim noting whether the Company timely responded to general claim correspondence.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim files. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted each of the tested claims was adequately documented according to the Company's policies and procedures, except that for two private passenger automobile claims and two homeowners claims, the claim files did not fully document and support all settlement offers made, and the rationale for each of the offers. Except as noted above, it appears that the Company's processes for documenting claim files are generally functioning in accordance with its policies and procedures.

Recommendation: The Company should ensure that all settlement offers are well documented and supported in the claims files, as evidence of compliance with the statutory requirement that all offers must be fair and reasonable.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Subsequent Company Action: The Company agrees with the recommendation and will reinforce training on the Company's expectations for a well-documented claim file.

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

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee, and whether the Company meets specific Massachusetts regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, RNA reviewed the Company's complaint log for complaints that were claim-related and tested 16 claim-related complaints.

Transaction Testing Results:

Findings: RNA testing noted that seven homeowners property claims files had no evidence that notice letters were provided to municipal authorities in violation of M.G.L. c. 139, § 3B.

Observations: Except as noted above, RNA noted each of the tested claims was handled according to policy provisions and statutory requirements. Based upon testing and except as noted above, it appears that the Company handles claims in accordance with policy provisions and statutory requirements. Finally, upon evaluation of claims-related complaints, the related claims appeared to be properly handled.

Required Actions: The Company shall review its procedures and adopt new controls as necessary to ensure that notice letters are timely sent to municipal authorities. The Company shall also provide training or guidance to staff about any new controls and procedures. Finally, the Company shall conduct an internal or compliance audit by December 31, 2017, or another date acceptable to the Division, to ensure that these required actions have been implemented. The Company shall provide the internal or compliance audit report to the Division.

Subsequent Company Actions: The Company has adopted new procedures requiring claim technical staff to send the municipal notice letters when claims have been reported, to expedite the issuance of the letters. The Company will conduct a claims quality assurance audit to ensure that the new process is effective.

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

Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: The Standard addresses the Company's process to establish and monitor claim reserves for reported losses. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner. The Division's financial examiners and actuaries are also testing reserving in conjunction with the ongoing financial examination of the Company.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 10 denied or closed-without-payment private passenger automobile claims, and five denied or closed-without-payment homeowners for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company does not use claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check. Full claim settlement attestation is required for certain liability claims through a written settlement agreement. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: The Standard addresses the Company's use of reservation of rights letters, and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted one private passenger automobile claim where an excess of loss letter was used. Also, testing indicated that two private passenger automobile claims and one homeowners claim used reservation of rights letters. The use of the letters appeared appropriate. RNA noted no instances where reservation of rights or excess of loss letters should have been used, but were not. Based upon review and testing, it appears that the Company's processes for utilizing excess of loss and reservation of rights letters are functioning in accordance with its 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 addresses whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied or closed-without-payment claims, and 12 open claims for testing. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were reasonably timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted four private passenger automobile claims where deductibles were reimbursed upon subrogation in the claims tested. Based upon review and testing, it appears that the Company's processes for making deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

Recommendations: None.

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

Objective: The Standard addresses the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy is to report complete and accurate loss data timely to appropriate rating bureaus.
- The Company reports private passenger automobile loss data to CAR in a format required by CAR. The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company reports homeowners loss data to ISO. Daily claim statistical data is accumulated, and that summary data is reviewed weekly by the Company. Quarterly claim statistical data is submitted to ISO in the required format. Any questions or data concerns from ISO are timely addressed.
- The Company has processes to reconcile statistical and financial data, to correct data coding errors, and to make subsequent reporting changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 35 paid claims, 10 denied or closed-without-payment claims, and 20 open claims for testing. Also, RNA selected homeowners claims including 18 paid claims, five denied

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

or closed-without-payment claims, and 12 open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

SUMMARY

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the *2015 NAIC Market Regulation Handbooks*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Underwriting and Rating, and in Claims. .


REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
ARBELLA MUTUAL INSURANCE COMPANY
ARBELLA PROTECTION INSURANCE COMPANY
ARBELLA INDEMNITY INSURANCE COMPANY

ACKNOWLEDGEMENT

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

The undersigned's participation in this comprehensive market conduct examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the NAIC and the Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), communication and status reporting throughout the examination, administration and preparation of the examination report.

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



Richard N. Bradley, Esquire, MCM
Director of Market Conduct & Examiner In Charge
Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts