



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

Report on the Comprehensive Market Conduct Examination of

Safety Insurance Company
Safety Indemnity Insurance Company
Safety Property and Casualty Insurance Company

Boston, Massachusetts

For the Period January 1, 2018 through December 31, 2018

NAIC COMPANY CODES: 39454, 33618, 12808

NAIC GROUP CODE: 0188

EMPLOYER ID NUMBERS: 04-2689624, 04-3051706, 20-5985347

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

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

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIUETENANT GOVERNOR

MIKE KENNEALY
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

EDWARD A. PALLESCHI
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

GARY D. ANDERSON
COMMISSIONER OF INSURANCE

February 10, 2020

The Honorable Gary D. Anderson
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

SAFETY INSURANCE COMPANY
SAFETY INDEMNITY INSURANCE COMPANY
SAFETY PROPERTY AND CASUALTY INSURANCE COMPANY

at their home offices located at:

20 Custom House Street
Boston, MA 02110

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
SAFETY INSURANCE COMPANY
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SAFETY PROPERTY AND CASUALTY INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of Safety Insurance Company (“SIC”), Safety Indemnity Insurance Company (“SIIC”), and Safety Property and Casualty Insurance Company (“SPCIC”), (collectively, the “Company”) for the period January 1, 2018 to December 31, 2018, with focus on personal lines operations. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination was conducted 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 *2018 NAIC Market Regulation Handbook*, (“the Handbook”) the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and applicable 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.

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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, or policyholder service. The examination indicated that the Company meets 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 IV-PRODUCER LICENSING

STANDARD IV-1

Findings: For one agent appointment, the Company failed to properly renew the appointment and the producer continued to sell for the Company for another year, in violation of M.G.L. c. 175, § 162S, which states that producers may not act as agent of an insurer unless appointed.

Observations: Based upon testing, except as noted above, the Company's independent agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's On-Line Producer Appointment System ("OPRA") System. Producers who were not appointed as agents were properly licensed in Massachusetts at the sale date.

Required Actions: The Company shall enhance its controls and procedures over agent appointment renewals, provide guidance to staff on the new controls and procedures, and conduct independent monitoring to ensure that the new controls and procedures have been effectively implemented.

Subsequent Company Actions: The Company is adopting new controls and procedures to address these required actions.

STANDARD IV-3

Findings: Two agent appointment terminations were not made with the Division through the OPRA System within 30 days following the effective date of the termination in violation of M.G.L. c. 175, § 162T.

Observations: For the two terminations noted above plus an additional termination, the Company did not terminate appointments in the OPRA System according to its procedures, which require the effective date in the OPRA System be the effective dates of the termination by contract. For the remaining agent

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appointment termination, the Company properly notified the Division of the appointment termination through the OPRA System in compliance with statutory requirements. For each of the tested appointment terminations, the Company was able to provide evidence of timely notice to the agents in compliance with statutory requirements, as appropriate.

Required Actions: The Company shall review its controls and procedures and make any necessary changes to ensure that statutory requirements for agent appointment terminations are followed. Also, the Company shall provide training and guidance to staff about the procedures and requirements. Finally, the Company shall conduct a detailed internal audit by December 31, 2020, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company is adopting new controls and procedures to address these required actions.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: None.

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 indicated that premiums were properly calculated. Also, 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. However, timely reporting of vacated at-fault accident determinations to the Comprehensive Loss Underwriting Exchange (“CLUE”) could not be assessed as changes to the at-fault indicator date were unavailable in the Company’s systems. Finally, through claims testing, 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.

Recommendation: The Company should implement process improvements to ensure that it maintains documentation of reported changes in at-fault indicators to CLUE within 15 days of receipt of the Board of Appeals decision in accordance with Bulletin 2010-11.

Subsequent Company Action: The Company is implementing process improvements to ensure timely reporting to CLUE of vacated at-fault accident determinations.

STANDARD VI-7

Findings: Testing of 35 homeowner declinations indicated that three declinations were for unacceptable insurance score based on a consumer credit report. For those declinations the agencies were to have delivered the Fair Credit Reporting Act (“FCRA”) adverse action notices to the applicants according to the Company’s underwriting policy. The Company requested the FCRA notices provided to the three applicants, and each of the three agencies reported that there was no evidence that the notices were provided, nor indicated that they were provided. Failure to deliver the FCRA adverse action notices is a violation of M.G.L. c. 93, § 62 and the Fair Credit Reporting Act, § 615(a).

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Observations: Except as noted above, based upon testing of 35 homeowners declinations homeowners declinations and refusals to quote, the reasons for these actions appeared reasonable and in compliance with the Company's underwriting guidelines.

Required Actions: The Company shall ensure that FCRA adverse action notices are timely provided to homeowner applicants not meeting the Company's minimum threshold for credit-based insurance scores or formally declined coverage for credit-based insurance score. The Company shall retain evidence of mailing for five years that the adverse action notices were sent to such applicants. Also, the Company shall provide training and guidance to staff and agents about the procedures and requirements. Finally, the Company shall conduct a detailed internal audit by December 31, 2020, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company is evaluating its processes, will be making enhancements to address the required actions, and will complete the audit as requested.

STANDARD VI-8

Findings: None.

Observations: Testing indicated that many of the private passenger automobile transactions reported as non-renewals appeared to be cancellations and re-writes, insured-requested cancellations, or test transactions, rather than non-renewal transactions. The Company provided corrected private passenger non-renewal data. Based on testing, the Company provided timely and adequate notice to policyholders for company-initiated cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons were reasonable and in compliance with statutory and regulatory requirements.

Required Actions: The Company shall amend its Market Conduct Annual Statement ("MCAS") filing to reflect the correct number of private passenger non-renewals.

Subsequent Company Actions: In December 2019, the Company filed an amended MCAS with the NAIC to correctly report private passenger non-renewals. Additionally, the Company is reviewing its procedures to ensure its MCAS reporting is complete and accurate.

SECTION VII-CLAIMS

STANDARD VIII-6

Findings: RNA testing noted that four homeowners property claim 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.

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Required Actions: The Company shall review its controls and procedures, and make any necessary changes to ensure that timely municipal letters are issued. Also, the Company shall provide training and guidance to staff about these matters. Finally, the Company shall conduct a detailed internal audit by December 31, 2020, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company adopted new procedures to address these findings, and will complete the audit as requested.

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COMPANY BACKGROUND

Safety Insurance Group, Inc. is the ultimate controlling company for a group of insurers that includes SIC, SIIC and SPCIC. The Company is a leading provider of private passenger automobile insurance in Massachusetts. In addition, the Company offers a portfolio of property and casualty insurance products, including standard commercial automobile coverage, standard homeowners and dwelling fire coverage, all personal and commercial umbrella coverage, standard BOP, and standard commercial package coverage. The Company writes personal and commercial automobile business for the Commonwealth Automobile Reinsurers (“CAR”), the state’s assigned risk pool. The Company also writes business in New Hampshire and Maine. A pooling agreement exists between SIC, SIIC and SPCIC with participation levels of 90% (SIC), 7% (SIIC), and 3% (SPCIC).

The Company maintains an A.M. Best group financial strength rating of A (Excellent) with a stable outlook. The following financial information is as of, or for the year ended December 31, 2018:

Safety Insurance Company:

Admitted assets	\$1,541.8 million
Statutory surplus	\$646.8 million
Direct written premium	\$659.6 million
Massachusetts business - direct written premium	\$637.4 million

Safety Indemnity Insurance Company:

Admitted assets	\$132.9 million
Statutory surplus	\$66.9 million
Direct written premium	\$159.1 million
Massachusetts business - direct written premium	\$152.1 million

Safety Property Casualty Insurance Company:

Admitted assets	\$49.2 million
Statutory surplus	\$21.8 million
Direct written premium	\$25.0 million
Massachusetts business - direct written premium	\$24.3 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.
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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.
- Safety Insurance Group, Inc.'s Board of Directors is comprised of five directors, including the Chairman and Chief Executive Officer, and four independent directors. The Board of Directors is responsible for managing the Company's strategic, financial and operational risks.
- Safety Insurance Group, Inc.'s Audit Committee is comprised of three independent directors in compliance with 211 CMR 26.00. The Audit Committee and the Risk, Audit and Compliance Department ("RACD") oversee the management of enterprise risks, and risks associated with accounting, auditing, internal controls, compliance, and financial reporting. The Audit Committee meets at least quarterly, and at each quarterly meeting meets with the independent auditors in executive session without management present. The Audit Committee is responsible for reviewing and discussing the guidelines and policies governing senior management's and internal audit's assessment and management of the Company's risk exposures, as well as the steps management has taken to monitor and control these exposures. The Company's internal audit function is contained within the RACD. The Audit Committee is also responsible for regulatory compliance including market conduct matters.
- The RACD coordinates and oversees risk assessment and monitoring functions and is also responsible for completing NAIC Model Audit Rule risk assessments and the Corporate Governance Annual Disclosure ("CGAD") filing. An annual risk-focused internal audit plan is developed, which includes an enterprise risk management ("ERM") assessment, strategies and business objectives, operational risks, and emerging risks. The internal audit plan includes reviews of operational, information technology, compliance and strategic risks. Significant efforts are also focused on meeting the annual internal control requirements for financial reporting. The internal audit plan also includes ongoing claim file handling assessments, monitoring of results, and reporting of risk and trend information to claims management. The Audit Committee approves the internal audit plan annually. Quarterly updates are provided on the ERM program and on the progress in meeting the internal audit plan. Internal audit reports are distributed to the Audit Committee.
- The Company's underwriting management completes periodic reviews of new and renewal business submitted for compliance with regulatory requirements and Company policies. All underwriters are covered in these periodic reviews, which are used for underwriter training and performance evaluations.
- The Company has established a quality assurance ("QA") program through monthly reviews of closed claim files by claims managers. The QA review includes a sample of claims for each adjuster to assess adherence to Company policies and procedures. The QA results are documented and scored in checklists. Results are reported for each adjuster for use by claims management as

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part of the employee training and performance evaluation processes. In addition, the RACD conducts periodic QA audits of claims handling processes.

- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.
- The Company is subject to periodic premium and loss 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 automobile insurance in Massachusetts.

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

Transaction Testing Procedure: RNA reviewed Board of Director minutes, the internal audit plan and risk assessment, and various internal audit reports. RNA also reviewed the Company's CGAD filing.

Transaction Testing Results:

Findings: None.

Observations: The Board of Director minutes, the internal audit plan and risk assessment, the internal audit reports, and the CGAD filing 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.
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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's antifraud efforts are summarized in their antifraud plan, which requires management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud, and to report potential fraud to the Insurance Fraud Bureau ("IFB"). Many of these activities are conducted through the Company's Special Investigative Unit ("SIU").

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- The SIU supports the claims operations with field investigations and surveillance as needed. Claim professionals receive training regarding SIU red flags and also use judgment to make referrals to SIU using a standard form. If the claim is accepted by SIU, the SIU adjustor assumes ownership of the claim adjudication. All auto theft claims are to be reported through the Insurance Services Office (“ISO”) to the National Insurance Crime Bureau (“NICB”). The SIU is responsible for referring fraudulent claims to the NICB and the IFB, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution. Finally, Company policy is to comply with CAR’s SIU performance standards.
- The Company’s Code of Ethics and Conflict of Interest Policy are contained in the Employee Handbook. All employees are asked to read it and are required to annually acknowledge that they will comply with its requirements. Officers and directors must annually complete a conflict of interest questionnaire and disclose any conflicts of interest.
- The Company has implemented Office of Foreign Asset Control (“OFAC”) compliance initiatives including searches of the Specially Designated Nationals (“SDN”) database for any policyholders, claimants, or vendors that might be included in the SDN database.

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

Transaction Testing Procedure: RNA 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.
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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,

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regulations and bulletins.

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

- The Company's sales distribution in Massachusetts is through independent producers and agents. Company policy is to verify that these producers are licensed in Massachusetts prior to contracting with them.
- Standard independent agent contracts contain terms and conditions that address general authorities, duties, premium accounting, commission rates, premium submission, profit sharing, termination provisions, marketing material requirements, privacy and general business procedures. The agents also have binding authority. Additionally, the Company requires independent agents to maintain an E&O insurance policy.
- Standard producer contracts with limited authorities contain terms and conditions that address those authorities, duties, premium accounting, commission rates, premium submission, termination provisions, marketing material requirements, privacy, general business procedures and indemnification. The producers have limited binding authority.
- The Company's agents and producers are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.
- Independent appraiser and field adjusters are utilized as needed to provide on-site-inspections and claim investigations. The independent field adjusters are provided written documentation of the company's procedures along with detailed instructions covering tasks to be performed and timeframes for completion.
- The Company contracts with vendors for services related to auto glass claims, car rental coverage, and roadside assistance claims. The Company manages these vendors and monitors their services.
- Certain claims litigation defense duties may be outsourced to various law firms and attorneys. The Company monitors the performance of the law firms and attorneys conducting litigation defense duties.

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, 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.
- The record retention requirements include guidelines for management, record maintenance, record disposal, and the length of time specific documents must be retained.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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.

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.
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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.

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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 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.

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Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of underwriting and claims testing, RNA reviewed 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.

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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.

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.

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Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard 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 2018 Massachusetts MCAS data for unusual results and data consistency. RNA also reviewed the homeowners underwriting and claims data filed with the Division in

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Transaction Testing Results:

Findings: None.

Observations: RNA's review of the Company's 2018 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 contained within the Company's complaint register as any written correspondence expressing a grievance. Concerns expressed by phone received in operational areas are handled by those units.
- All regulatory complaints, including those from the Division, are directed to Claims Administration for logging and tracking. A representative in Claims Administration reads the complaint, indexes the claim or policy number, and identifies the operational area to address the complaint. The Claims Administration representative assigns the complaint a number and response due date, and enters the complaint in the complaint log. Operational area managers respond to the complaint in writing within the required timeframe as set by the Division, by electronically submitting the original response to the Division, and e-mailing a copy of the response to Claims Administration.
- The Company uses social media primarily as a means to promote brand awareness. The Company monitors social media sites, and identified complaints are referred to Claims Administration for complaint tracking and assignment. Operational managers respond to social media complaints within 24 hours.
- The operational area manager also completes a "Complaint Analysis Report" form to document the complaint resolution. The form is attached to the copy of the response that is sent to Claims Administration, which also distributes the Complaint Analysis Report and complaint response to staff in that operational area. Finally, the complaint log is updated with the response date and complaint type.
- The Company's complaint logs include a complete record of all complaints received. The record indicates the total number of complaints, the company, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its website.
- The Company reviews all complaint activity for identification of any recurring, systemic or potential problems. Management reporting of complaint activity is provided monthly to all Directors and Vice-Presidents.

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

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the

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Company's complaint registers for 2017-2019 to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for 2017-2019 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 20 complaints from 2017-2019, to evaluate the Company's compliance with statutory complaint requirements. RNA tested 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.
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Objective: This Standard addresses whether the Company's response to the complaint fully addresses the

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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 20 complaints from 2017-2019, 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 20 complaints from 2017-2019, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

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 conducts brand awareness and product-feature advertising to the general public through local radio and television, and through social media. A public relations firm assists the Company with general insurance awareness and safety tips for posting on social media. Advertising to the public is also provided by agents, who use Company co-op advertising. Most sales efforts are directed to preparation of sales materials, such as brochures and fact sheets for agents.
- All Company advertising and sales materials are developed and documented in the marketing materials log by the marketing department, with approval of the Director of Marketing, the Vice-President of Marketing, and other Company Vice-Presidents, usually in weekly group meetings. All brochures and fact sheets contain expiration approval dates on the materials. The Company also advertises to agents in *The Standard*, *New England's Insurance Weekly*.
- Co-op advertising by agents requires pre-approval by the marketing department. Preapproved co-op advertising costs of the agents are reimbursed by the Company.
- The Company provides affinity group discounts for Massachusetts personal lines policies.
- 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. 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:

- The Company's sales distribution in Massachusetts is through independent producers and agents.
- Producer relationships are managed through six Massachusetts marketing representatives, who regularly visit the producers to provide guidance and training on new products, sales assistance and performance evaluations.
- Technical and underwriting training is provided to producers through the Company's Customer Relationship Management Group. Additional training and underwriting information is available to agents through the Company's agent web portal.

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.

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.

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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 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 or other groups.
- The Company's mass marketing plans are filed with the Division for 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 or 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 developing and distributing group marketing communications to understand the nature and breadth of such communications. RNA reviewed any group marketing communications noted in new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

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

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's sales distribution in Massachusetts is through independent producers and agents. Company policy is to verify that all producers are licensed in Massachusetts prior to contracting with them.
- Standard independent agent contracts contain terms and conditions that address general authorities, duties, premium accounting, commission rates, premium submission, profit sharing, termination provisions, marketing material requirements, privacy and general business procedures. The agents also have binding authority. Additionally, the Company requires independent agents to maintain an E&O insurance policy.
- Standard producer contracts with limited authorities contain terms and conditions that address those authorities, duties, premium accounting, commission rates, premium submission, termination provisions, marketing material requirements, privacy, general business procedures and indemnification. The producers have limited binding authority.
- The Company's agents and producers are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.
- The Company's policy is to use the Division's OPRA System to process agent appointments. That information is to be periodically compared to OPRA System data, with record corrections made as necessary.
- Agent and producer commissions are paid monthly based on new and renewal written premium on the policy effective date. Chargebacks are made for policies cancelled mid-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 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 agent for each policy was included on the Division's list of the Company's appointed agencies or agents, or if the non-appointed producer was properly licensed.

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Transaction Testing Results:

Findings: For one agent appointment, the Company failed to properly renew the appointment and the producer continued to sell for the Company for another year, in violation of M.G.L. c. 175, § 162S, which states that producers may not act as agent of insurer unless appointed.

Observations: Based upon testing, except as noted above, the Company's independent agents were properly licensed and appointed at the date of sale, and the agents' appointments were included in the Division's OPRA System. Producers who were not appointed as agents were properly licensed in Massachusetts at the sale date.

Required Actions: The Company shall enhance its controls and procedures over agent appointment renewals, provide guidance to staff on the new controls and procedures, and conduct independent monitoring to ensure that the new controls and procedures have been effectively implemented.

Subsequent Company Actions: The Company is adopting new controls and procedures to address these required actions.

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:

- The Company's sales distribution in Massachusetts is through independent producers and agents.
- Producer relationships are managed through six Massachusetts marketing representatives, who regularly visit the producers to provide guidance and training on new products, sales assistance and performance evaluations.
- Technical and underwriting training is provided to producers through the Company's Customer Relationship Management Group. Additional training and underwriting information is available to agents through the Company's agent web portal.

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 continuing education requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, independent agencies, agents and producers 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:

- The Company's appointment terminations are generally due to lack of production or profitability, or at the request of the agent. Agent terminations are to be processed in accordance with the agency contract, which requires 180 days to terminate the appointment in most instances. The Company's policy is to give required written notice to all agents whose appointments are terminated.
- Agency appointment terminations are to be reported on the termination effective date to the Division through the OPRA System. After the termination effective date, new business is no longer accepted. An agent is allowed to service existing business for one year after the effective termination date.
- The Company's policy is to give additional information to the Division about agents whose appointments are terminated "for cause" including the reason for the terminations.
- The Company obtains OPRA System data at least twice a year and compares it with the Company's agent information. Differences in data are to be researched and addressed as appropriate.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for agent supervision, producer contracting and appointment termination processing. RNA selected four business entity appointment terminations and compared that information to corresponding information in the Company's appointment termination listings and the Division's OPRA System. Finally, RNA reviewed evidence that notices to the Division and the agents complied with statutory requirements.

Transaction Testing Results:

Findings: Two agent appointment terminations were not made with the Division through the OPRA System within 30 days following the effective date of the termination in violation of M.G.L. c. 175, § 162T.

Observations: For the two terminations noted above plus an additional termination, the Company did not terminate appointments in the OPRA System according to its procedures, which require the effective date in the OPRA System be the effective dates of the terminations by contract. For the remaining agent appointment termination, the Company properly notified the Division of the appointment termination through the OPRA System in compliance with statutory requirements. For each of the tested appointment terminations, the Company was able to provide evidence of timely notice to the agents in compliance with statutory requirements, as appropriate.

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Required Actions: The Company shall review its controls and procedures and make any necessary changes to ensure that statutory requirements for agent appointment terminations are followed. Also, the Company shall provide training and guidance to staff about the procedures and requirements. Finally, the Company shall conduct a detailed internal audit by December 31, 2020, or another date acceptable to the Division, to ensure that this required action has been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company is adopting new controls and procedures to address these required actions.

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.

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 four 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

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and appointment termination processing. RNA selected four 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”.

Recommendations: None.

Standard IV-6. Producer account balances are in accordance with the producer’s contract with the insurer.
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No work performed. This Standard is not covered in the scope of examination because the Company 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.
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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:

- The Company's billing and payment methods include payment in full at inception or direct bill in installments. Payments are accepted using a check, credit card, debit card, automated clearing house, or electronic funds transfer ("EFT"), by mobile application and by phone. Homeowner policies may also be mortgagee-billed. For new business, a down payment of 20% is generally required, depending on policy type, payment plan selected and the consumer's payment history. For private passenger automobile payments, the maximum number of installments is nine. Homeowners payments must be made in either five or 10 installments.
- For billed installments, the initial bill is sent approximately 20 days prior to the due date. If a private passenger automobile premium payment is not made, a notice of cancellation is sent approximately 30 days after the billing notice was sent. If a homeowners premium payment is not made, a notice of cancellation is sent approximately 23 days after the billing notice was sent. The insured has a final 23 days to make the minimum payment or the policy is cancelled. Initial renewal billings are sent 29-37 days prior to the private passenger automobile renewal effective date, and 20 days prior to the homeowners renewal effective date.
- If an EFT payment transaction results in an insufficient funds transaction, the insured must make the payment using an official check or money order and then may continue with the EFT program. If a second insufficient funds transaction occurs, the insured can no longer participate in the EFT program.
- If a private passenger auto policy customer has incurred a cancellation for non-payment of premium within the preceding 24 months, then he or she will be required to pay a new policy premium in full.
- Reinstatements for policies cancelled for non-payment may be approved within 11 days of cancellation with the involvement of the producer, the underwriting department, and receipt of a no loss affidavit.
- Premium financing can be obtained from an unaffiliated premium finance agency. If an insured is delinquent in paying the premium finance agency, the premium finance agency will send a notice to the policyholder of its intent to exercise its power of attorney to initiate cancellation of the policy. If after 10 days the payment is not received, the premium finance agency will exercise its power of attorney and will send a notice of cancellation to the insured 23 days in advance of the cancellation effective date. The premium finance agency will also notify the Company of the intended cancellation, seeking a return of any applicable unearned premium if the cancellation becomes effective. The premium finance agency may rescind its notice of cancellation on or before the cancellation effective date.
- The Company has developed standards for billing and collections, and monitors compliance with those standards.

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

Transaction Testing Procedure: RNA interviewed 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.

<u>Standard V-2. Policy issuance and insured requested cancellations are timely.</u>

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:

- Policy cancellation requests from customers must be made through the producers, who are generally able to process the requests electronically, or who will forward the request to the Company. Automobile policyholders may cancel their policies only after filing a Form 2A, "Notice of Transfer of Coverage," or evidence that they have moved out of Massachusetts. Any unearned premium is refunded to the policyholder on a pro-rata basis, or on a short rate table basis in accordance with CAR Rules.
- Requests to cancel homeowners coverage are processed by the producers 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 eight private passenger automobile and seven 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 were processed accurately and timely. Also, premium refunds were returned timely.

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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's agents and producers contractually have the primary relationship with the policyholder, and as such, policyholders request endorsements and policy changes through the agents and producers. Policyholders requesting such changes through the Company are transferred to the agent or producer for servicing.
- The Company's call center representatives may make billing address changes or premium billing changes. The Company's 10-person call center handles such requests. The call center also takes calls from agents. Metrics such as speed to answer, abandoned calls, average wait time and others are measured against key performance indicators. QA call monitoring is also performed as needed.
- The Company monitors customer service call centers to ensure that adequate resources are available to address customer inquiries.

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 obtained documentation of underwriting service standards. RNA reviewed call center statistical reports for two months to assess results. Also, RNA reviewed customer 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 has established a dedicated post office box for undeliverable private passenger automobile and combined billed statements and notices. The returned mail post office box is managed daily by the Company's vendor, which reports the undeliverable items to the Company. Undeliverable homeowner policy billing and cancellation notices as well as all premium refund checks are returned to the Company by the U.S. Postal Service.
- The Company addresses returned mail such as policies, required notices, premium refunds and billing notices by sending the item to the producer, and asking the producer to locate the customer.
- If a better address is found, for returned premium refund checks, the check is resent using the new address. For any outstanding claim checks, the Company's forwards the claim check to the claims adjuster to locate the claimant. All outstanding claims checks remain on the Company's outstanding check list.
- At 90 days prior to escheatment, a final letter is sent to the payee at the best available address notifying him or her that the check is still outstanding. Once these efforts are exhausted and after three years, the funds are deemed abandoned property and escheated in accordance with Massachusetts Law.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st 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.

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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, agents, and producers have access to policyholders' claims history and paid loss information.
- The Company asks the agent or producer to provide a policyholder with his or her claims history and paid loss information, when requested.

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

Transaction Testing Procedure: 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.

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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.
- The Company has provided producers with personal lines underwriting requirements for use in evaluating risks. Producers have binding authority.
- To obtain personal lines insurance quotes, the producers may use either the Company's agent portal or a third-party comparative rating service. Any policy issued electronically must be processed through the agent portal.
- Agents electronically submit application information with the signed applications retained in the agents' files. The standard forms for the applications are approved by the Division.
- The Company's Personal Lines Underwriting Department is responsible for voluntary private passenger automobile and homeowners underwriting, while the Company's Residual Market Underwriting Department is responsible for assigned risk automobile business. Appropriate authority limits are assigned to each underwriter, and underwriting staff review submitted applications.
- The Company uses automated underwriting guidelines to accept or reject private passenger automobile and homeowners risks.
- The Company's private passenger automobile underwriting system interfaces with the Registry of Motor Vehicles systems to obtain real-time driver history and claim information. Private passenger automobile underwriting criteria include license status, driving history, and driver experience, among other factors. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating.
- 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 rating for comprehensive and collision coverages is based on original cost new and annual depreciation factors. All approved rates are loaded in the Company's underwriting and policy administration systems and are tested prior to use.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents and ensures that at-fault drivers are appropriately surcharged for such accidents. Surcharged drivers are notified of the right to appeal the surcharge. Also, at-fault accident determinations are reported to the MRB and the CLUE database. Further, the Company identifies vacated surcharges from the Board of Appeal and completes processing for those transactions.

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- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.
- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules of Operation.
- For new homeowners business, underwriting company placement is reviewed by the underwriters, and loss history is verified. Property inspections are generally completed for all for new business and periodically on renewal business.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for security and safety features, electronic processing, loss-free policies, and higher deductibles. The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting. If the applicant does not meet the required minimum insurance score, the Company's producers are required to provide the applicant with a FCRA adverse action notice.
- Homeowners rates are based on Massachusetts ISO data and the Company's competitive analysis of market rates.
- The Company's underwriting management completes periodic reviews of new homeowners business submitted for compliance with regulatory requirements and Company policies. All underwriters are covered in these periodic reviews, which are used for underwriter training and performance evaluations.

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 10 private passenger automobile and 10 homeowners policies, RNA verified that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate. RNA also tested 40 vacated at-fault accident determinations by the Board of Appeal for accurate and timely reversal of premium surcharges, and for timely reporting to CLUE. 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.

Transaction Testing Results:

Findings: None.

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 indicated that premiums were properly calculated. Also, 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. However, timely reporting of vacated at-fault accident determinations to CLUE could not be assessed as changes to the at-fault indicator date were unavailable in the Company's systems. Finally, through claims testing, at-fault accident determinations and comprehensive claims were timely reported to the MRB, and "Surcharge Notices" were properly provided to at-fault operators.

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Recommendation: The Company should implement process improvements to ensure that it maintains documentation of reported changes in at-fault indicators to CLUE within 15 days of receipt of the Board of Appeals decision in accordance with Bulletin 2010-11.

Subsequent Company Action: The Company is implementing process improvements to ensure timely reporting to CLUE of vacated at-fault accident determinations.

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

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

- The Company has written policies and procedures for processing new and renewal business.
- The Company's supervisory procedures and system's controls are designed to ensure that new business submissions are accurate and complete, including the use of all required forms.
- 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.

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,

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regulations and bulletins.

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for 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.

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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.

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating. Underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- Any changes in policy coverage must be requested through the agencies and producers.
- The Company waives pre-damage inspections for nearly all private passenger automobile applications in accordance with the Company's Division approved underwriting and rating plan.
- Time and service standards for issuance of policies have been established and are monitored.

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

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

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements. Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.
- Applications for private passenger and homeowners coverage may be declined by the producer on the Company's behalf, or by the underwriting department, if the risks do not meet the Company's underwriting guidelines.
- Producers are to provide a written declination notice to the private passenger automobile applicant noting the reason that the application is rejected, with a copy of the declination notice retained by the producer for five years.
- The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting. Any applicant declined coverage or refused a quote for an unacceptable insurance score is to be provided a FCRA adverse action notice by the producer. The FCRA adverse action notice is to be retained by the producer for five years.
- Other than of the FCRA adverse action notice, producers may provide either a written or oral declination notice to the homeowners applicant for other declination reasons.
- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.

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 35 homeowners declinations processed during the examination period, to ensure that declinations were not unfairly discriminatory, and to ensure that a written FCRA adverse action notice was timely provided when the applicant did not meet the minimum insurance score.

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Transaction Testing Results:

Findings: Testing of 35 homeowner declinations indicated that three declinations were for unacceptable insurance score based on a consumer credit report. For those declinations the agencies were to have delivered the FCRA adverse action notices to the applicants according to the Company's underwriting policy. The Company requested the FCRA notices provided to the three applicants, and each of the three agencies reported that there was no evidence that the notices were provided, nor indicated that they were provided. Failure to deliver the FCRA adverse action notices is a violation of M.G.L. c. 93, § 62 and the Fair Credit Reporting Act, § 615(a).

Observations: Except as noted above, based upon testing of 35 homeowners declinations homeowners declinations and refusals to quote, the reasons for these actions appeared reasonable and in compliance with the Company's underwriting guidelines.

Required Actions: The Company shall ensure that FCRA adverse action notices are timely provided to homeowner applicants not meeting the Company's minimum threshold for credit-based insurance scores or formally declined coverage for credit-based insurance score. The Company shall retain evidence of mailing for five years that the adverse action notices were sent to such applicants. Also, the Company shall provide training and guidance to staff and agents about the procedures and requirements. Finally, the Company shall conduct a detailed internal audit by December 31, 2020, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company is evaluating its processes, will be making enhancements to address the required actions, and will complete the audit as requested.

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, producer and loss payee at least 23 days prior to cancellation.
- Homeowners cancellations for underwriting after policy inception are generally issued within the first 60 days of coverage, for inspection violations or information not known or disclosed at binding. After 60 days, cancellations are generally made for material misrepresentation in the application of insurance, usually noted after the filing of a claim. In these instances, notices of cancellation, including the specific reason, are sent to the agents for delivery to the insureds at least five days prior to cancellation, or to the mortgagees, at least 20 days prior to cancellation.

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- Written non-renewal notices for unacceptable renewals of automobile policies are provided to policyholders, producers and loss payees at least 45 days prior to the non-renewal effective date. The notices state the specific reasons for the non-renewals.
- Written non-renewal notices for unacceptable renewals of homeowners policies are provided to producers at 45-60 days prior to policy expiration, with the specific reasons stated on the notices. The producers must provide the notices to the policyholders and mortgagees within 15 days, if the policies are not replaced by the producers. All homeowners non-renewal notices are reviewed by Company management prior to delivery to the producers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. For testing, RNA selected 10 private passenger automobile cancellations, 20 homeowners company-initiated cancellations, 15 private passenger automobile non-renewals, and 20 homeowners non-renewals. All transactions were evaluated for compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Testing indicated that many of the private passenger automobile transactions reported as non-renewals appeared to be cancellations and re-writes, insured-requested cancellations, or test transactions, rather than non-renewal transactions. The Company provided corrected private passenger non-renewal data. Based on testing, the Company provided timely and adequate notice to policyholders for company-initiated cancellations and non-renewals with the specific reasons properly disclosed. The specific reasons were reasonable and in compliance with statutory and regulatory requirements.

Required Actions: The Company shall amend its MCAS filing to reflect the correct number of private passenger non-renewals.

Subsequent Company Actions: In December 2019, the Company filed an amended MCAS with the NAIC to correctly report private passenger non-renewals. Additionally, the Company is reviewing its procedures to ensure its MCAS reporting is complete and accurate.

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

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

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

- Company policy requires compliance with underwriting guidelines in accordance with statutory requirements. Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.

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- The Company states that although rare, rescissions, are usually related to claims filed where material misrepresentations were made by the insureds. All rescissions are approved by the Corporate Legal Department.

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 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.

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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 Company's customer service representatives and producers are responsible for obtaining the VIN and vehicle symbol when the applications are completed.
- The Company's underwriting system compares the VIN and vehicle symbol to its industry database to ensure that both are accurate.

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

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

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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.

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

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 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 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 or 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 or 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 review and 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. None of the selections included individuals who were members of such groups.

Recommendations: None.

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 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.

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.
- The Company's producers and agents are responsible for completing and retaining applications for new business and obtaining information needed to properly underwrite and rate the policies 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 selected 25 private passenger automobile and 25 homeowners policies issued or renewed during the examination period to test for properly completed new business applications and adequate underwriting documentation.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, application information was properly submitted, and policy files adequately supported the Company's decisions.

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 Company's claims handling process is organized in two home office divisions with approximately 288 claims personnel. Each division is led by a vice-president with a supervisory structure that includes directors, managers, adjusters and support staff. The two divisions are organized functionally with casualty, SIU, litigation and homeowners contained in one division. The other division handles automobile physical damage, field operations and claims support staff, which includes salvage/subrogation and total loss. The Company also utilizes field adjusters and independent appraisers in Massachusetts to supplement its employee field staff.
- Written policies and procedures govern claims handling processes. Claims are generally reported through the Company's 800 phone number by the claimant or through the producer. A claim number is established, and key information, such as the claimant's name, policyholder information, policy number, accident date, location, and extent of injuries are obtained and recorded in the electronic claims processing system, which includes a claim diary and history notes.
- Claims are investigated to determine existence of coverage, and an initial liability determination is made. Drive-in appraisal facilities are used in conjunction with employee and independent appraisers. Field and independent claim adjusters provide on-site-inspections and claim investigations. The adjusters are provided written procedures and detailed instructions covering performance tasks, and timeframes for completion. Claims adjusters are to contact the claimants the same day or the next business day. The Company contracts with vendors for services related to auto glass claims and car rental coverage.
- Individual claim settlement authority limits are assigned commensurate with claims adjusters' experience. Claims adjusters are responsible for verifying coverage, coordinating claim investigations, establishing liability, and determining damages.
- The Company uses an internally-developed bodily injury evaluation methodology to document the damage analysis. The Company has developed "help tables" based on its historical Massachusetts claims experience to help guide the bodily injury reserving and damages settlement evaluation. The Company's policy is to make settlement offers between the low and high settlement estimates. Any exceptions from this policy are to be reviewed with management. Unit managers review each active bodily injury claim after the initial 120 days, and annually for all open exposures. For litigated claims, internal or outside counsel may be used as considered necessary. The Company monitors the performance of any law firms and attorneys conducting litigation defense duties.
- The Company follows standard industry and CAR claim handling guidelines in its claim investigations, including the application of Massachusetts regulatory standards of fault. Information from police reports, witness statements, photographic evidence, and consumer reporting agencies are used to evaluate the claim.

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- Company policy is to comply with CAR settlement performance standards. The Company is subject to audits from CAR for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and paying a claim.
- The Company ensures that an at-fault driver is provided a “Surcharge Notice” notifying him or her that the at-fault accident will impact the driver's SDIP, and that the driver may appeal the at-fault determination to the Board of Appeal. Also, at-fault accident determinations are reported to the CLUE database.
- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database, and reports required claims to the MRB as required in Massachusetts.
- The Company has established a SIU within the home office claims department to detect, investigate, and deter fraudulent claim activity. SIU also supports the claims operations with four employee-BI field investigators and approved vendors as needed. Claim professionals receive training regarding SIU red flags, and also use judgment to make referrals to SIU using a standard form. If the claim is accepted by SIU, the claim is transferred from the assigned adjuster to the SIU adjuster.
- All auto theft claims are reported through ISO to the NICB. The SIU is responsible to refer fraudulent claims to the NICB and the Insurance Fraud Bureau, in cases where fraud is believed to have occurred, to assist with criminal investigation and prosecution. OFAC checks for claimants are completed daily against the SDN database using DXC Patriot Protector software.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise. Department of Revenue checks are performed as required by statute, and are documented in the claim files. Also, underwriting risk referrals are made to the underwriting department as necessary.
- Generally, no liability release is obtained from insureds, unless the claim involves other parties who were underinsured or not insured. Third party property damage claimants are generally not required to sign a liability release unless there is a settlement dispute or real property claims exceeding a dollar threshold. Releases are routinely required from third party bodily injury claimants. Criteria for unit manager periodic reviews of the claim adjusters’ work have been established, and such reviews are documented in the claim systems.
- The claim system produces data for the monthly claims reporting of key service and quality metrics which are monitored.
- The Company has established a QA program through monthly reviews of closed claim files by claims managers. The QA review includes a sample of claims for each adjuster to assess adherence to Company policies and procedures. The QA results are documented and scored in checklists. Results are reported for each adjuster for use by claims management as part of the employee training and performance evaluation processes. In addition, the RACD conducts periodic QA audits of claims handling processes.
- The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company conducts post-claim payment surveys to first party claimants. The survey results are summarized for management reporting. Any negative comments from respondents are addressed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-

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without-payment claims, and 10 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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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.

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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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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.

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

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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 open claims for testing. RNA tested each selected claim noting whether the Company timely responded to general claim correspondence.

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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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. It appears that the Company's processes for documenting claim files are generally functioning in accordance with its policies and procedures.

Recommendations: None.

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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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 14 claim-related complaints.

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Transaction Testing Results:

Findings: RNA testing noted that four homeowners property claim 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 controls and procedures, and make any necessary changes to ensure that timely municipal letters are issued. Also, the Company shall provide training and guidance to staff about these matters. Finally, the Company shall conduct a detailed internal audit by December 31, 2020, or another date acceptable to the Division, to ensure that these required actions have been properly implemented. The Company shall provide the internal audit report to the Division.

Subsequent Company Actions: The Company adopted new procedures to address these findings, and will complete the audit as requested.

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

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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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.

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 nine denied or closed-without-payment private passenger automobile claims, and eight denied or closed-without-payment homeowners for testing. RNA evaluated whether the Company handled these claims timely and properly before closing or denying them.

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Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company does not use claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check. 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.

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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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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 and one homeowner claim where a reservation of rights letter was used, and two private passenger automobile claims where an excess of letter was used. The use of the letters appeared appropriate. RNA noted no instances where reservation of rights or excess of loss letters should have been used,

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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.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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 none of the claims resulted in reimbursement of the insured's deductible due to subrogation, and we noted no instances where the deductible should have been reimbursed, but was not. 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.

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- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts automobile insurance industry.
- The Company uses ISO as its statistical reporting agent for homeowners claims, and that data is submitted to ISO quarterly in the required format.
- 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 40 paid claims, nine denied or closed-without-payment claims, and 10 open claims for testing. Also, RNA selected homeowners claims including 32 paid claims, eight denied or closed-without-payment claims, and 10 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.

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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 *2018 NAIC Market Regulation Handbooks*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Producer Licensing, Underwriting and Rating, and in Claims.


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ACKNOWLEDGEMENT

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

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

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



Mark G. Noller, CIE
Principal, Rudmose & Noller Advisors, LLC