



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

Boston, Massachusetts

For the Period January 1, 2003 through June 30, 2004

NAIC COMPANY CODE: 39454

EMPLOYERS ID NUMBER: 04-2689624



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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

August 1, 2005

The Honorable Julianne M. Bowler
Secretary, Northeastern Zone
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Bowler:

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

SAFETY INSURANCE COMPANY

at its home office located at 20 Custom House Street, Boston, Massachusetts 02110. The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (hereinafter "Division") conducted a comprehensive market conduct examination of Safety Insurance Company (hereinafter "Safety" or "Company") for the period January 1, 2003 through June 30, 2004. The examination was called pursuant to authority in Massachusetts General Laws Chapter 175 § 4. The current market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Eide Bailly, LLP (hereinafter "Eide") were engaged to complete certain agreed-upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of Safety using the guidance and standards of the *National Association of Insurance Commissioners Market Conduct Examiners Handbook* (hereinafter "Handbook"), the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. All procedures were performed under the management and control of the market conduct examination staff of the Division. The following describes the procedures performed and the findings for the workplan steps thereon.

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

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

In addition to the processes' and procedures' guidance in the Handbook, the examination included a review of the Company's policies and procedures regarding compliance with 18 U.S.C. §§ 1033 and 1034 as well as an assessment of the Company's internal control environment. While the Handbook approach detects individual incidents of deficiencies through transaction testing, the internal control assessment provides an understanding of the key controls that Company management uses to run their business and to meet key business objectives, including complying with applicable laws, regulations and bulletins related to market conduct activities.

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

All systems and personnel of the Company are shared with its wholly owned subsidiary, Safety Indemnity Insurance Company. Therefore, the control environment, systems environment and policies and procedures are shared amongst these entities. We conducted our testing on the overall operating environment while maintaining an understanding of each company within the overall organization.

EXECUTIVE SUMMARY

The comprehensive examination was conducted subsequent to the financial examination performed by the Division on Safety. The financial examination performed limited compliance testing since the market conduct examination was also being conducted.

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

The Division considers a substantive issue as one in which corrective action on part of the Company is deemed advisable, or one in which a “finding”, or violation of Massachusetts insurance laws, regulations or bulletins was found to have occurred. When applicable, corrective action should be taken by the Company for any finding contained herein. Any corrective action requires agreement of both the Company and the Division prior to implementation.

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

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

SECTION I – COMPANY OPERATIONS / MANAGEMENT

Standard I-3

Finding(s): The Company has procedures in place to perform criminal background checks on new employees, but no such process in place for existing employees.

Observation(s): Eide noted the Company does not ensure criminal background checks are performed on existing employees.

Recommendation(s): Eide recommends that the Company conduct criminal background checks for all current and prospective employees.

SECTION II - COMPLAINT HANDLING

Standard II-4

Finding(s): Based on our review, we found that the Company has adequate procedures, documentation and record retention to comply with M.G.L. c. 176 § 3(10). However, we found that in eight cases, the Company’s response time to the Division exceeded the 14 days required by the Division’s correspondence. In all cases, the Company had not requested additional time to respond. The Company’s policies and procedures require a seven day response time to all inquiries which would ensure compliance with all Division requests.

Observation(s): The Company did not request extensions of time from the Division for delayed responses.

Recommendation(s): We recommend that the Company review complaint handling procedures to ensure that the Company timely responds to the Division's request. We also recommend adherence to the time standards outlined in the Company's complaint handling procedures.

SECTION III - MARKETING AND SALES

Standard III-1

Finding(s): The Company requires advertising to be submitted for prior approval and also requires a copy of the advertisement to be submitted with the bill at the time of request for reimbursement. However, after a request for reimbursement has been submitted, the Company does not confirm that the advertising was previously approved.

Observation(s): The results of our testing showed that advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02.

Recommendation(s): The Company should ensure that reimbursement of advertising is for prior approved advertising only.

Standard III-3

Finding(s): The Company allows producers to be reimbursed for joint marketing efforts up to .002 of direct written premiums produced by the producer. The Company does not have this policy included in the agency agreement or any other written agreements, it is an oral agreement. The Company has minimal documentation on policies and procedures surrounding the marketing function.

Observation(s): The Company's communications to producers on its website appear to be accurate and reasonable.

Recommendation(s): The Company should ensure that all key aspects of the agency agreement including reimbursement of advertising are documented in writing.

SECTION IV - PRODUCER LICENSING

Standard IV-1

Finding(s): The Company reconciles its producer information based upon the lists provided from the Division. The Company's list also included duplicate information where buyouts, name changes or consolidations had occurred. This made reconciliation of the Division information to the Company information difficult.

Observation(s): Based on the results of our testing new and renewal business written, Eide noted no violations of M.G.L. c. 175, §§ 162I and 162S as all sales were produced by properly licensed producers.

Recommendation(s): Eide recommends that the Company utilize an identifier, such as license number, that would allow the Company to reconcile to the Division records on a common field rather than by name of agency.

Standard IV-3

Finding(s): The results of our testing showed that the Company was not notifying the Division when producers are terminated as required by M.G.L. c. 175, § 162T. See also Standard IV-5 concerning failure to report cause of terminations when termination is “for cause.”

Observation(s): None.

Recommendation(s): Eide recommends that the Company reconcile its terminated producer records with the Division’s records as of a date certain and to continue to notify the Division of all terminated producers as required by law.

Standard IV-5

Finding(s): Based on the testing noted above, the Company’s internal records adequately document reasons for producer terminations. None of the terminations tested was for cause as defined in M.G.L. c. 175, § 162R. However, regardless of whether the termination was “for cause” or “not for cause”, the Company, as a matter of practice, fails to notify the Division as required by M.G.L. c. 175 § 162R.

Observation(s): None.

Recommendation(s): Eide recommends that the Company adopt a policy and procedures to notify the Division of all terminations including the reason for termination when the termination is for cause.

SECTION VI - UNDERWRITING AND RATING

Standard VI-1

Finding(s): The results of our testing of new and renewed auto policies indicated discounts were being given for anti-theft devices without documentation on one occasion out of the 11 policies tested. Two out of the 5 applicable new and renewal homeowner policies received discounts and/or surcharges without any supporting documentation.

Observation(s): Eide inquired with management at the Company regarding homeowner records retention policies for producers and found that producers were primarily responsible for maintenance of the records supporting discounts provided on homeowners policies.

Recommendation(s): The Company’s record retention rules should be examined to ensure producers are keeping the requested information for the amount of time required by Company policy to ensure that homeowner policies have proper support for discounts and surcharges.

Standard VI-14

Finding(s): One out of the 11 applicable auto policies received anti-theft discounts without any documentation of the anti-theft devices. two out of the five applicable homeowners policies did not have adequate documentation for discounts given.

Observation(s): Through examining available supporting documentation of discounts and surcharges given, Eide believes that the Company is using information developed at or near the inception of policy coverage. However, for three policies tested, there was inadequate supporting documentation provided from the related producers to support whether the information was timely relative to policy issuance.

Recommendation(s): The Company's record retention rules should be examined to ensure producers are keeping the requested information for the amount of time required by Company policy to ensure that auto and homeowner policies have proper support for discounts given.

Standard VI-15

Finding(s): One out of the 11 applicable auto policies received anti-theft discounts without any documentation of the anti-theft devices. Two out of the five applicable homeowners policies did not have adequate documentation for discounts or surcharges given.

Observation(s): Through examining available supporting documentation of discounts and surcharges given, Eide believes that the Company has procedures in place to ensure proper documentation exists to support underwriting decisions, however, in three of 70 files tested, the documentation to support decisions made was not complete.

Recommendation(s): The Company should ensure policies and procedures surrounding receiving and maintaining adequate documentation to support underwriting decisions are adhered to by producers of the Company.

Standard VI-27

Finding(s): The CAR audit issued in September of 2003 stated that 232 statistical errors were detected of the 6,989 statistical fields verified (3.3 % of the fields contained errors). Those statistical errors resulted in 43 rating discrepancies.

Observation(s): Based on the results of our review of CAR audits performed during the examination period, it appears that the Company statistical error rate is higher than industry average. The average statistical error rating of the 11 most previous CAR audited companies is 1.7% while Safety's error rating is 3.3%. It was noted that 28 of the 3 rating errors are for low mileage discount. The Company began to verify these discounts when the Registry of Motor Vehicles made the information available in January 2003.

Recommendation(s): The Company should ensure policies and procedures surrounding receiving and maintaining adequate documentation to support underwriting decisions are adhered to by producers of the Company.

COMPANY BACKGROUND

Safety Insurance Company and its wholly owned subsidiary, Safety Indemnity Insurance Company, comprise the insurance operations of the Safety Group. The Safety Group is owned by the Safety Insurance Group, Inc. which was established in October 2001 via a buyout by senior management and private investors. In 2002, the Company underwent an initial public offering that closed on November 27, 2002.

The Company commenced business in 1980 and operates solely in Massachusetts, offering private passenger and commercial automobiles coverages, as well as homeowner, dwelling fire, personal umbrella, business owners policy ("BOP"), commercial package and commercial umbrella policies throughout the Commonwealth. The Company is currently the second largest writer of private passenger auto in the Commonwealth of Massachusetts.

The operations are divided amongst the two insurers with Safety Insurance Company, as the lead company, writing all the personal automobile coverage, standard commercial automobile coverage, standard homeowners and dwelling fire coverage, all personal and commercial umbrella coverage, standard BOP, and standard commercial package coverage. Safety Insurance Company also writes commercial and personal automobile business for the Commonwealth Automobile Reinsurers (CAR), the Commonwealth's assigned risk pool. Safety Indemnity Company writes the preferred commercial automobile, homeowners, dwelling fire, BOP and commercial package book. These two companies share risks through a pooling agreement whereby Safety Insurance Company's participation is 95% and the remaining 5% is Safety Indemnity Company's participation.

The largest line of business for the Company is private passenger auto. The Division mandates rates for private passenger auto and has established rate increases of 2.7% and 2.5% for 2003 and 2004 respectively. The Company is allowed to deviate from mandated rates through safe driver and group discounts.

The private passenger auto market in Massachusetts is highly regulated, characterized by mandatory coverage minimums, uniform rates set by the Division, a requirement for carriers to accept all risks, and uniform coverages. Rate deviations are allowed via discounts to affinity groups as approved by the Division. Further, individual risks as determined by the carriers can be ceded to CAR. All licensed auto carriers are also required to participate in the CAR reinsurance facility. Each licensed auto carrier is allocated a share of the CAR pooled operating results and accumulated deficit in proportion to each carrier's market share in the voluntary market.

The Safe Driver Insurance Plan (SDIP) is a program mandated by state law that encourages safe driving. The Company did not file for a SDIP deviation in 2004 as it had done in prior years.

The Company offers a private passenger Group Automobile Program, for approved groups. Safety offers discounts between 3% and 5% to 195 affinity groups which accounts for 13% of the private passenger policies issued by the Company.

The Company's top five lines of business for direct written premium during 2003 are shown in Table 1:

TABLE 1:

Line of Business	Safety Insurance	Percent of Total
Private Passenger Auto	\$ 292,290,000	56%
Auto Physical Damage	179,910,000	35%
Commercial Auto	23,471,000	4%
Homeowners	13,238,000	3%
Commercial Multi Peril	3,807,000	1%
Other	3,698,000	1%
Total Direct Business	\$ 516,414,000	100%

Table 1 shows that the Company is primarily a personal lines writer focusing on auto insurance and homeowners multi peril. The Company has approximately 600 licensed independent producers who distribute the various products throughout the Commonwealth. The number of producers has been relatively stable over the examination period. The Company utilizes a standardized agency contract to establish the business relationship with producers and has an automatic renewal with the producers so that the arrangement is perpetual until cancelled by one of the parties.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company has an internal audit function and is also audited annually by an independent accounting firm.
- The Company responds to internal and external audit recommendations to correct, modify and implement procedures.
- The Company has adopted procedures to screen and check data submitted to the Company's statistical producer, CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- The Company also submits data to Automobile Insurers Bureau ("AIB"). AIB is a rating bureau that represents the insurance industry in rate hearings before the Commissioner of Insurance.
- The Company utilizes tip sheets as a communication tool between claims and underwriting to ensure suspicious activity is communicated to all affected parties within the Company.

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

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

Transaction Testing Results: Not applicable.

Recommendation(s): None.

* * * * *

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

Reviewed work performed by Division financial examination team and found adequate coverage. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

* * * * *

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

General, 18 U.S.C. § 1033; Division of Insurance Bulletins 98-11 and 2001-14.

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

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994, it is a criminal offense for anyone “engaged in the business of insurance” to willfully permit a “prohibited person” to conduct insurance activity without written consent of the primary insurance regulator. A “prohibited person” is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses and who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 98-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers who are affected by this law. Those individuals may either apply for an exemption from the law, or must cease and desist from their engagement in the business of insurance.

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

- The Company has a written antifraud plan.
- The Company has a Special Investigative Unit (“SIU”) dedicated to the prevention and handling of fraudulent activities.
- The SIU holds periodic meetings with representatives from various departments at the Company including those in claims, internal audit, underwriting, sales and customer service.
- Potential fraud activity is tracked by the SIU and investigated with the assistance of other departments as necessary. Such activity is reported to the regulators as necessary.
- The SIU utilizes tip sheets created by the claims and underwriting departments to ensure that suspicious activity is logged and investigated.
- The Company does not perform criminal and financial background checks on producers, or require evidence of the producer’s E&O, prior to contracting with them and appointing them as producers.
- The Company completes background checks for new employees.
- The Company’s policy is to not employ a “prohibited person” by utilizing background checks as part of the hiring process.

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

Transaction Testing Procedure: Eide interviewed individuals with responsibility for ensuring the Company does not employ prohibited persons as defined in 18 U.S.C. § 1033 and reviewed procedures followed by the Company to ensure compliance.

Transaction Testing Results:

Finding(s): The Company has procedures in place to perform criminal background checks on new employees, but no such process in place for existing employees of the Company.

Observation(s): Eide noted the Company does not ensure criminal background checks are performed on existing employees of the Company.

Recommendation(s): Eide recommends that the Company conduct criminal background checks for all current and prospective employees.

* * * * *

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

Reviewed work performed by Division financial examination team and found adequate coverage. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

* * * * *

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

No work performed. Company does not utilize MGAs; therefore this standard is not applicable to this examination.

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

No work performed. The Company does not utilize MGAs; therefore this standard is not applicable to this examination.

* * * * *

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

Objective: This Standard is concerned with the organization, legibility and structure of files, as well as determining if the Company is in compliance with its record retention requirements. The objective of this Standard was included for review in each Standard where such policy or procedure for the retention of records exists or should exist.

Controls Assessment: The Company's home office record retention policies are described for each Standard, as applicable. In addition, Company policy requires that its producers keep complete records and accounts of all insurance transactions. The Company's standard producer contract requires insurance records and accounts be kept current and identifiable. The Company's standard producer contract also maintains the Company's right to examine producers' accounts and records of all insurance transactions for as long as the Company deems reasonable including a reasonable time after the termination of a producer contract.

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

Transaction Testing Procedure: Eide performed various procedures throughout this examination which related to review of documentation and record retention.

Transaction Testing Results: Such testing results are noted in the various examination areas and include exceptions noted in the Executive Summary.

Recommendation(s): Such recommendations are noted in the various examination areas and include exceptions noted in the Executive Summary.

* * * * *

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

General; M.G.L. c. 175, §§ 32 and 47.

Reviewed work performed by Division financial examination team and met with the Examiner in Charge to discuss testing of Company compliance with the Certificate of Authority performed by the financial examination team. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

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

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

- The Company adheres to operating within the lines of business approved with its existing Certificate of Authority.

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

Transaction Testing Procedure: Due to the nature of this Standard, no transaction testing was performed beyond review of testing performed by the financial examination team.

Transaction Testing Results:

Finding(s): None.

Observation(s): Compliance was tested during the performance of the financial examination.

Recommendation(s): None.

* * * * *

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

General; M.G.L. c. 175, § 4.

Objective: This Standard is concerned with the Company's cooperation during the course of the exam. M.G.L. c. 175, § 4 sets forth the Commissioner's authority to conduct examinations of an insurer.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Finding(s): None.

Observation(s): The Company's level of cooperation and responsiveness to examiner requests was excellent.

Recommendation(s): None.

* * * * *

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

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

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

- Company policy allows for the sharing customer and personal information with affiliates.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy requires a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders.

- The Company has stated that they have developed and implemented information technology security practices to safeguard nonpublic personal information.

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

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

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of applicants and policyholders, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendation(s): None.

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

The objective of this Standard was included for review in each Standard where such policy or procedure for the management of insurance information exists or should exist.

* * * * *

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

General: Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313

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

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504(a) and its related rule 16 CFR Part 313 regarding privacy requirements of nonpublic personal information.
- Company policy allows for the sharing customer and personal information with affiliates.

- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy requires a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders.
- The Company has stated that they have developed and implemented information technology security practices to safeguard nonpublic personal information.

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

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

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of customers, former customers and consumers that are not customers, and is disclosed to policyholders in accordance with their policies and procedures.

Recommendation(s): None.

* * * * *

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

General; Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313

Objective: This Standard is concerned with the Company's policies and procedures to ensure it provides consumers proper notification of privacy information.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504(a) and its related rule 16 CFR Part 313 regarding privacy requirements of nonpublic personal information.
- Company policy allows for the sharing customer and personal information with affiliates.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy requires a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders.

- The Company has stated that they have developed and implemented information technology security practices to safeguard nonpublic personal information.

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

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

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and discussion with Company personnel, it appears that the Company disclosed privacy information to policyholders in accordance with their policies and procedures.

Recommendation(s): None.

* * * * *

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

General; Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313

Objective: This Standard is concerned with the Company's policies and procedures to provide consumers with an opt out as required in the Gramm Leach Bliley Act.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504(a) and its related rule 16 CFR Part 313 regarding privacy requirements of nonpublic personal information.
- Company policy allows for the sharing customer and personal information with affiliates.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy requires a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders.
- The Company has stated that they have developed and implemented information technology security practices to safeguard nonpublic personal information.

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

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

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice and discussion with Company personnel, it appears that the Company does not provide information to business partners or other third parties and therefore is not required to provide an opt out option.

Recommendation(s): None.

* * * * *

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

General; Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313

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

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504(a) and its related rule 16 CFR Part 313 regarding privacy requirements of nonpublic personal information.
- Company policy allows for the sharing customer and personal information with affiliates.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy requires a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders.
- The Company has stated that they have developed and implemented information technology security practices to safeguard nonpublic personal information.

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

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

Transaction Testing Results:

Finding(s): None.

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

Recommendation(s): None.

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

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

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

- Company policy allows for the sharing customer and personal information with affiliates.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy requires a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders.
- The Company has stated that they have developed and implemented information technology security practices to safeguard nonpublic personal information.

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

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

Transaction Testing Results:

Finding(s): None.

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

Recommendation(s): None.

* * * * *

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

General; Gramm-Leach-Bliley Act § 504 (a) and 16 CFR Part 313

Objective: This Standard is concerned with ensuring the Company has written policies and procedures regarding the protection of nonpublic customer information.

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

- The Company's policy is to comply with the Gramm-Leach-Bliley Act, § 504(a) and its related rule 16 CFR Part 313 regarding privacy requirements of nonpublic personal information.
- Company has written policies and procedures in place for security of nonpublic customer and consumer information.
- Company policy allows for the sharing customer and personal information with affiliates.
- Company policy is to disclose information only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy requires a consumer privacy notice be provided to policyholders when a policy is delivered. Annual disclosure notices also are provided to policyholders.
- The Company has stated that they have developed and implemented information technology security practices to safeguard nonpublic personal information.

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

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

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of the Company's privacy notice written documentation, it appears that the Company's policies and procedures for the protection of nonpublic customer and consumer information are documented and adequate.

Recommendation(s): None.

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FOR INFORMATION PURPOSES ONLY

II. COMPLAINT HANDLING

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

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

General; M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints received. The record must indicate the total number of complaints, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint and the time it took to process each complaint.

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

- Written policies and procedures govern the complaint handling process.
- All complaints are recorded in a consistent format in the complaint log.
- The Company's definition of complaint is similar to the statutory requirement.
- Company has a centralized function for receipt and processing of complaints to ensure consistency in handling and documentation.

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

Transaction Testing Procedure: Eide obtained complete complaint listings from the Company and the Division for the examination period. We compared to two listings to ensure completeness and found that the Division and the Company had logged 151 complaints made to the Division during this period. We reviewed all complaints received by the Division and a sample of 35 complaints on the Company log to ensure that complaints were being handled in accordance with M.G.L. c. 176 § 3(10). Of the 35 complaints tested, 7 were justified and 28 were not justified based on a review of the complaints. Review of the complaints also indicated the following:

Type of Complaint	Number of Complaints	Percent of Total
Claims Handling	107	71%
Underwriting	35	23%
Policyholder Services	7	5%
Marketing	2	1%
Total	151	100%

Based on these findings coupled with our planning risk assessment, we performed detail testing on claims handling and underwriting which are outlined later in this report.

Transaction Testing Results:

Finding(s): None.

Observation(s): For the 35 complaints tested, Eide noted that the Company appears to maintain complaint handling procedures and a complete listing of complaints in accordance with M.G.L. c. 176D, § 3(10).

Recommendation(s): None.

* * * * *

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

General; M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether (a) the Company has documented procedures for complaint handling as required by M.G.L. c. 176D, § 3(10), (b) the procedures in place are sufficient to require satisfactory handling of complaints received as well as conducting root cause analyses of complaints, (c) there is a method for distribution of and obtaining and recording response to complaints that is sufficient to allow response within the time frame required by state law, and (d) the Company provides a telephone number and address for consumer inquiries.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide reviewed 35 of the 151 Massachusetts complaint files from the examination period to evaluate this Standard. In addition, Eide interviewed management and staff responsible for complaint handling and examined evidence of the Company's processes and controls. To determine whether or not the Company provides contact information for consumer inquiries, a sampling of forms and billing notices sent to policyholders were reviewed for compliance.

Transaction Testing Results:

Finding(s): None.

Observation(s): The Company appears to have adequate complaint procedures in place and communicates such procedures to policyholders.

Recommendation(s): None.

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

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

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide reviewed 35 of the 151 Massachusetts complaint files from the examination period to evaluate this Standard. In addition, Eide reviewed all complaints which exceeded the 14 day response time required by Division communications to determine reasons for delay.

Transaction Testing Results:

Finding(s): None.

Observation(s): For the 35 complaints tested, Eide noted that the Company responded to the issues raised through the formalized complaint process in complete manner. In addition, there was adequate documentation to support complaint handling. Also, the Company appears to treat complainants with similar fact patterns in a consistent and reasonable fashion. Also, complaint files were adequately documented for review purposes.

Recommendation(s): None.

* * * * *

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

Objective: This Standard is concerned with the time required for the Company to process each complaint. Massachusetts does not have a specific time standard in the statutes or regulations. However, the Division has established a practice of allowing 14 days from the date that the notice of complaint is sent to the insurer by the Division for the insurer to respond to the Division. For complaints received by the Company directly, the Company policy is to diligently respond to the complaint as soon as possible.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: Eide reviewed 35 of the 151 Massachusetts complaint files from the examination period to evaluate this Standard. In addition, Eide reviewed all complaints which

exceeded the 14 day response time required by Division communications to determine reasons for delay.

Finding(s): Based on our review, we found that the Company has adequate procedures, documentation and record retention to comply with M.G.L. c. 176 § 3(10). However, we found that in eight cases, the Company's response time to the Division exceeded the 14 days required by the Division's correspondence. In all cases, the Company had not requested additional time to respond. The Company's policies and procedures require a seven day response time to all inquiries which, if complied with, would ensure compliance with all Division requests.

Observation(s): The Company did not request extensions of time from the Division for these untimely responses.

Recommendation(s): We recommend that the Company review complaint handling procedures to ensure that the Company timely responds to the Division's request. We also recommend adherence to the time standards outlined in the Company's complaint handling procedures.

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FOR INFORMATION PURPOSES ONLY

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.

General; M.G.L. c. 176D, § 3; Division of Insurance Bulletin 2001-02.

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertisements of its policies. Pursuant to M.G.L. c. 176D, §3, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. Pursuant to Division of Insurance Bulletin 2001-02, an insurer who maintains an Internet website must disclose on that website the name of the company appearing on the certificate of authority and the address of its principal office.

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

- All advertising and sales materials produced by the Company are reviewed by management for approval and compliance with statutory and regulatory requirements prior to use.
- The Company's policy is that the website discloses the Company's name and the Company's address.
- The Company does not utilize marketing in a material fashion but instead relies upon producers to market the Company's business through the independent agency relationship.

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

Transaction Testing Procedure: Eide reviewed producer-developed as well as direct advertising and sales materials for compliance with statutory and regulatory requirements. Eide also reviewed the Company's website for appropriate disclosure of its name and address and consistency with statutory and regulatory requirements.

Transaction Testing Results:

Finding(s): The Company requires advertising to be submitted for prior approval and also requires a copy of the advertisement to be submitted with the bill at the time of request for reimbursement. However, after a request for reimbursement has been submitted, the Company does not confirm that the advertising was previously approved.

Observation(s): The results of our testing showed that advertising and sales materials comply with Massachusetts M.G.L. c. 176D, § 3. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02.

Recommendation(s): The Company should ensure that reimbursement of advertising is for prior approved advertising only.

* * * * *

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

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

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

- The Company has frequent meetings with all producers and currently accepts both paper and internet submissions for underwriting and claims information. Producers are provided training on products as well as use of web interface.

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: None performed beyond inquiry and observation.

Transaction Testing Results: None.

Recommendation(s): None.

* * * * *

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

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with applicable statutes, rules and regulations.

Controls Assessment: Periodically the Company communicates information to producers via various methods including personal communications, paper and electronic means.

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

Transaction Testing Procedure: Eide conducted interviews with key personnel to determine what communications occur as well as review examples of communications occurring during the examination timeframe.

Transaction Testing Results:

Finding(s): The Company allows producers to be reimbursed for joint marketing efforts up to .002 of direct written premiums produced by the producer. The Company does not have this policy included in the agency agreement or any other written agreements, it is an oral agreement. The Company has minimal documentation on policies and procedures surrounding the marketing function.

Observation(s): The Company's communications to producers on its website appear to be accurate and reasonable.

Recommendation(s): The Company should ensure that all key aspects of the agency agreement including reimbursement of advertising are documented in writing.

* * * * *

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

Property/Liability; M.G.L. c. 175, § 193R

Objective: This Standard is concerned with whether the Company's mass marketing efforts are in compliance with applicable statutes, rules and regulations. Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby motor vehicle or homeowner insurance is afforded to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

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

- Written underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges.
- The Company provides a premium discount of 2-15% to members of various affinity groups. The Company is required to provide the same discount to each member of the affinity group.
- Premium discounts available to affinity groups are filed with and approved by the Division.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the marketing and underwriting processes. Eide selected 35 new and renewal private passenger auto policies for the period January 1, 2003 through June 30, 2004 for testing of premium discounts including those to affinity groups. For each of the policies, Eide verified that the affinity group discount was properly applied and that the group discount was approved by the Division.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing of 35 new and renewal private passenger auto policies, it appears that each of the premium discounts including those to affinity groups were properly applied and that each was approved by the Division.

Recommendation(s): None.

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FOR INFORMATION PURPOSES ONLY

IV. PRODUCER LICENSING

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

Standard IV-1. Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

General; M.G.L. c. 175, §§ 162I and 162S.

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division. M.G.L. c. 175, § 162I requires all persons who solicit, sell or negotiate insurance in the Commonwealth to be licensed for that line of authority. Further, any such producer shall not act as a producer of the Company unless the producer has been appointed by the Company pursuant to M.G.L. c. 175, § 162S.

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

- The Company tracks all producers via an Excel spreadsheet.
- All producers are required to enter into a written contract with the Company prior to their appointment which includes providing a listing of all individualized producers.
- The Company verifies that producers are properly licensed for the lines of business to be sold in Massachusetts prior to contracting with them and appointing them as producers and requires producers to update listings of individual producers when changes occur.
- The Company's appointment procedures are designed to comply with the Division's requirements prescribed in M.G.L. c. 175, § 162S, which requires that a producer must be appointed as producer within 15 days from the date the producer's contract is executed.

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

Transaction Testing Procedure: Eide interviewed individuals with responsibility for producer contracting and processing of appointments. Eide selected 35 sales for the period January 1, 2003 through June 30, 2004. For each of the sales, Eide verified that the Company's producer was included on the Division's list of the Company's appointed producers. Additionally, the Company provided evidence of licensure for each producer not located on the Division's list. There were additional procedures required to reconcile the Company's list to the Division's list.

Transaction Testing Results:

Finding(s): The Company reconciles its producer information based upon the lists provided from the Division. The Company's list also included duplicate information where buyouts, name changes or consolidations had occurred. This made reconciliation of the Division information to the Company information difficult.

Observation(s): Based on the results of our testing new and renewal business written, Eide noted no violations of M.G.L. c. 175, §§ 162I and 162S as all sales were produced by properly licensed producers.

Recommendation(s): Eide recommends that the Company utilize an identifier, such as license number, that would allow the Company to reconcile to the Division records on a common field rather than by name of agency.

* * * * *

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

M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletin 98-11 and 2001-14.

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division. M.G.L. c. 175, § 162I requires all persons who solicit, sell or negotiate insurance in the Commonwealth to be licensed for that line of authority. Further, any such producer shall not act as a producer of the Company unless the producer has been appointed by the Company pursuant to M.G.L. c. 175, § 162S. In accordance with Division of Insurance Bulletins 98-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers who are affected by this law. Those individuals may either apply for an exemption from the law, or must cease and desist from their engagement in the business of insurance.

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

- The Company tracks all producers via an Excel spreadsheet.
- All producers are required to enter into a written contract with the Company prior to their appointment which includes providing a listing of all individualized producers.
- The Company's policy is to not employ a "prohibited person" by utilizing criminal background checks as part of the hiring process.
- The Company verifies that producers are properly licensed for the lines of business to be sold in Massachusetts prior to contracting with them and appointing them as producers and requires producers to update listings of individual producers when changes occur.
- The Company's appointment procedures are designed to comply with the Division's requirements prescribed in M.G.L. c. 175, § 162S, which requires that a producer must be appointed as producer within 15 days from the date the producer's contract is executed.

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

Transaction Testing Procedure: Eide interviewed individuals with responsibility for producer contracting and processing of appointments. Eide selected 35 sales for the period January 1, 2003 through June 30, 2004. For each of the sales, Eide verified that the Company's producer was included on the Division's list of the Company's appointed producers. Additionally, the Company provided evidence of licensure for any producer not located on the Division's list. There were additional procedures required to reconcile the Company's list to the Division's list.

Transaction Testing Results:

Finding(s): None

Observation(s): None

Recommendation(s): None

* * * * *

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

General; M.G.L. c. 175, § 162T.

Objective: This Standard is concerned with whether the Company's termination of producers complies with applicable statutes requiring notification to the state and the producer. Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and if the termination was for cause, must notify the Division of such cause.

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

- The Company has implemented procedures to provide notification of termination to producers.
- The Company has not implemented procedures to provide notification of termination 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: Eide selected all terminated producers from the Company's records and requested documentation supporting the reporting of the terminations to the Division.

Transaction Testing Results:

Finding(s): The results of our testing showed that the Company was not notifying the Division of producer terminations as required by M.G.L. c. 175 § 162T. See also Standard IV-5 concerning failure to report cause of terminations when termination is "for cause."

Observation(s): None.

Recommendation(s): Eide recommend that the Company reconcile its terminated producer records with the Division's records as of a date certain and ensure that the Division is notified of all terminated producers as required by law.

* * * * *

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

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

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

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

Transaction Testing Procedure: Eide selected 35 sales for the period January 1, 2003 through June 30, 2004. For each of the sales, Eide reviewed documentation for any evidence of unfair discrimination against policyholders as a result of the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Finding(s): None.

Observation(s): Through our testing noted above, no evidence of unfair discrimination against policyholders was noted as a result of the Company's policies regarding producer appointments and terminations.

Recommendation(s): None.

* * * * *

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

General; M.G.L. c. 175, § 162R and 162T.

Objective: The Standard is concerned that the Company's records for terminated producers adequately document the action taken. Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and if the termination was for cause, as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause.

Controls Assessment: Refer to Standard IV-3.

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

Transaction Testing Procedure: Eide obtained a listing of terminated producers and reviewed the reasons for termination for each producer.

Transaction Testing Results:

Finding(s): Based on the testing noted above, the Company's internal records adequately document reasons for producer terminations. None of the terminations tested was for cause as defined in M.G.L. c. 175, § 162R. However, regardless of whether the termination was "for cause" or "not for cause", the Company, as a matter of practice, fails to notify the Division as required by M.G.L. c. 175 § 162R.

Observation(s): None.

Recommendation(s): Eide recommends that the Company adopt a policy and procedures to notify the Division of all terminations including the reason for termination when the termination is for cause.

* * * * *

Standard IV-6. Producer accounts current (account balances) are in accordance with the producer's contract with the company.

Eide reviewed work performed by Division financial examination team and found activity for this Standard was included in the scope of the statutory financial examination of the Company. It should be noted that a majority of the Company's policies are billed on a direct basis mitigating the possibility for excessive balances from producers.

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FOR INFORMATION PURPOSES ONLY

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.

Auto; M.G.L. c. 175, §§ 193B and 193B ½.

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due. Pursuant to M.G.L. c. 175, § 193B and 193B ½, premiums may be paid in installments with interest charged on the unpaid balance due as of the billing date.

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

- The policyholder receives a renewal notice from the Company 35-42 days prior to the effective date of the renewal asking the policyholder to report changes in requested coverage and changes in drivers and to complete the annual low mileage form if applicable.
- Billing notices are generated automatically through the policy administration system approximately 28-35 days before policy expiration for renewal policies.
- New policies premium notices have a Company standard 24 hour turn-around time limit to respond, while those policies issued under CAR have a Company standard 48 hour turn-around time limit. Billing notices are sent 30 days before payment is due.
- Billing for both auto and homeowner policies occurs using the 28 day method, with cycle date determined by the effective date of the policy.
- The Company uses the 9 pay program for auto policies with 20% down payment with remaining balance being paid equally on a monthly basis over 9 months. A 5 pay plan is utilized for homeowners policies with a required 20% down payment with remaining balance being paid equally on a monthly basis over 5 months.
- Both auto and homeowner policies require 100% premium payment for former non-payment cancellations.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for policyholder service. In conjunction with the underwriting and rating testing, Eide reviewed billing notice dates, fees and interest charges for 30 new and renewal private passenger auto policies and five new and renewal homeowner policies for the period January 1, 2003 through June 30, 2004. For each renewed policy, the date the renewal letter was sent to the policyholder, as tracked in the Company's database, was compared with the policies effective renewal date.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of 30 new and renewal private passenger auto policies and 5 new and renewal homeowner policies for the period January 1, 2003 through June 30, 2004, billing notices appeared to be mailed 28-35 days prior to policy expiration for renewal policies and approximately 30 days prior to the due date for new business. Fees and interest charges on installment payments appeared to be properly calculated and applied.

Recommendation(s): None.

* * * * *

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

General; M.G.L. c. 175, §187B.

Refer to the Underwriting and Rating Section Standards VI-16, VI-23 for assessments and findings.

* * * * *

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

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

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

- Special requests of insureds are usually mailed in with premium payment and are detected when opened by the Company's payment scanner.
- The billing department is the first to view the request and forwards it to the proper department depending on the topic.
- The Company has established a 24 - 48 hour time limit for standard responses.
- Issues that require additional review are handled separately from those that require standard responses.
- The Company's policyholder services division provides front-line responses to policyholders and receives most policyholder inquiries except formalized complaints which receive responses from the policyholder complaints department.
- The Company considers its producers as having the primary relationship with the policyholder, and since policyholder service representatives are not licensed producers, endorsements and policy changes must be requested by the policyholder through the producer. If a policyholder requests such changes through policyholder service, the policyholder is referred to the producer for servicing.

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

Transaction Testing Procedure: Eide discussed procedures with Company personnel and reviewed correspondence in conjunction with underwriting and rating, policyholder service and claims standards.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of general correspondence between policyholders and the Company with regard to underwriting and rating, policyholder service and claims, it appears that correspondence directed to the Company is answered in a timely and responsive manner by the appropriate department in accordance with their policies and procedures. The complaint testing performed also supports the timeliness of responses by the Company.

Recommendation(s): None.

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Standard V-4. Claims history and loss information is provided to insured in timely manner.

Objective: This Standard is concerned with whether the Company provides history and loss information to the insured in a timely manner.

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

- The Company's provides access to claims information to the producers through digital means.
- The Company relies on producers to provide information supplied by the Company to the policyholder in a timely fashion.
- The Company provides claims history and paid loss information directly to policyholders when the policyholder makes such a request to the Company.

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

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

Transaction Testing Results:

Finding(s): None.

Observation(s): Based upon our review of underwriting and rating, claims handling, complaints and policyholder service, Eide noted no evidence of the Company being non-responsive to policyholder inquiries. Policy and procedures for how the Company responds to policyholder inquiries on claims history and paid loss information appears adequate and reasonable.

Recommendation(s): None.

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Standard V-5. Whenever the company transfers the obligations of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained the prior approval of the insurance department and the company has sent the required notices to affected policyholders.

No work performed. This Standard is not applicable as the Company did not enter into assumption reinsurance agreements during the examination period.

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FOR INFORMATION PURPOSES ONLY

VI. UNDERWRITING AND RATING

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

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

General; M.G.L. c 175, § 193R;

Homeowners; 211 CMR 131.00; M.G.L. c. 111 §§ 189A-199B;

Auto; M.G.L. c. 175E, § 7, 211 CMR 78.00, M.G.L. c. 175, §§ 113B, 162E; M.G.L. c. 175E, § 4; 211 CMR 56.00, 86.00, 124.00, and 134.00;

Objective: This Standard is concerned with ensuring that the rates charged by the Company are filed and approved with the Division. Pursuant to M.G.L. c. 175E, § 7 and 211 CMR 78.00, every insurer or rating organization authorized to file on behalf of such insurer shall file with the Commissioner every manual of its classifications, rules and rates, rating plans and modifications of any of the foregoing not less than forty-five days before the effective date thereof. Pursuant to M.G.L. c. 175, § 113B, various discounts and surcharges are statutorily mandated. Pursuant to M.G.L. c. 175, § 162E, the rate filings must include commission costs. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. Pursuant to M.G.L. c. 175E, § 4, rates shall be reduced for insureds age sixty-five years or older. Pursuant to 211 CMR 56.00, premium discounts are mandated for election of optional repair shop endorsement plans. 211 CMR 86.00 requires premium discounts for anti-theft devices. 211 CMR 124.00 mandates premium discounts for certain safety features, 211 CMR 131.00 requires insurers to make available liability coverage for those homeowner policies in compliance with M.G.L. c. 111, §§ 189A-199B, and 211 CMR 134.00 requires each driver to receive a step rating according to the Safe Driver Insurance Plan, which requires corresponding discounts and surcharges.

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

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Rates are determined by the Division annually, and such rate information is incorporated in the AIB Rating Manual. The Company applies such rates to information provided by the applicant and obtained from the Massachusetts Registry of Motor Vehicles, and this information includes the location of garaged vehicles.
- The low mileage discount form, which verifies actual mileage, must be completed annually to receive the low mileage discount.
- The Company has elected not to offer optional repair shop endorsement plans.
- The Company provides a premium discount of 2-15% to members of various affinity groups. The Company is required to provide the same discount to each member of the affinity group.
- The Company's policy is to require documentation for anti-theft discounts given.
- The Company makes available liability insurance for homeowner policies in compliance with M.G.L. c. 111, § 189A-199B.

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

Transaction Testing Procedure: Eide interviewed the Company's underwriting personnel to gain an understanding of the underwriting process. Eide selected 30 new and renewal private passenger auto policies and five new and renewal homeowner policies for the period January 1, 2003 through June 30, 2004 for testing of rates, classifications and premium discounts. For each of the policies, Eide verified that the policy premium discounts and surcharges for multiple coverages complied with statutory and regulatory requirements and had documentation to support the discounts and surcharges given. . In addition, Eide reviewed database information to ensure that information was available at the time the underwriting decision was made.

Transaction Testing Results:

Finding(s): The results of our testing of new and renewed auto policies indicated discounts were being given for anti-theft devices without documentation on one occasion out of the 11 policies tested. Two out of the five applicable new and renewal homeowner policies received discounts and/or surcharges without any supporting documentation.

Observation(s): Eide inquired with management at the Company regarding homeowner records retention policies for producers and found that producers were primarily responsible for maintenance of the records supporting discounts provided on homeowners policies.

Recommendation(s): The Company's record retention rules should be examined to ensure producers are keeping the requested information for the amount of time required by Company policy to ensure that homeowner policies have proper support for discounts and surcharges.

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

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

Auto; M.G.L. c. 175E, §§ 11 and 11A;

Objective: This Standard is concerned with whether all mandated disclosures for rates and coverages are documented in accordance with statutes and regulations and provided to insureds timely. Pursuant to M.G.L. c. 174A, § 11 and M.G.L. c. 175A, § 11, the insurer will furnish to the insured any requested rate information in a timely manner. Pursuant to M.G.L. c. 175E, § 11, an information guide shall be provided upon application which outlines choices of coverage available to insureds and an approximation of differences in cost among various types of coverage and among competing carriers. Pursuant to M.G.L. c. 175E, § 11A, producers shall disclose coverage options in simple language to every person they solicit, including the option to exclude oneself and members of one's household from personal injury protection coverage.

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

- The Company has written policies and procedures for processing new and renewal business.
- If information or forms are missing, requirements are updated and a letter is sent to the producer requesting those forms and information.
- The Company's supervisory procedures are designed to ensure that new business submissions from producers are accurate and complete including use of all Company required forms and instructions, including the requirement to provide the information guide and coverage options.
- The Company has provided training to producers to remind them that they must provide the information guide to consumers when new business is written.
- Company policy is to provide the information guide to policyholders upon policy renewal, while producers provide the information guide when a new application is taken.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Through the interview process, we learned of the producer training that is provided to ensure that information guides are distributed to policyholders for new policy issuance. We reviewed the informational guides that are utilized for new and renewal business and found that they adequately meet the disclosure requirements of the law. Since informational brochures are not tracked as part of the underwriting process by either the producers or the Company, we substantiated compliance through document observation and corroborating inquiry.

Transaction Testing Results:

Finding(s): None.

Observation(s) Based upon our inquiries and observation of documents, the Company appears to comply with the requirement to provide required coverage disclosures to insureds upon initial application and renewal in accordance with statutory guidelines. Although the Company has stated that the information guide for new business is provided by the producer, no evidence is available supporting these assertions. However, Eide is not aware of any information suggesting that policyholders have not received the information guide.

Recommendation(s): None.

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

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

Objective: This Standard is concerned with ensuring that the Company does not permit illegal rebating, commission cutting or inducements; and that producer commissions adhere to the commission schedule. Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, the Company, or any producer thereof, cannot pay or allow, or offer to pay or allow any valuable consideration or inducement not specified in the policy or contract. Similarly, under M.G.L. c. 176D, § 3(8), it is an unfair method of competition to knowingly permit or make any offer to pay, allow or give as inducement any rebate of premiums, any other benefits or any valuable consideration or inducement not specified in the contract.

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

- The Company has procedures to pay producers' commissions in accordance approved commission rates.
- The producer contracts and home office policies and procedures are designed to comply with provisions contained in statutory underwriting and rating requirements which prohibit special inducements and rebates.

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

Transaction Testing Procedure: Eide interviewed individuals with responsibility for producer contracting. In connection with the review of producer contracts, new business materials, advertising materials, producer training materials and manuals, Eide inspected such materials for indications of rebating, commission cutting or inducements.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing, it appears that the Company's processes to prohibit illegal acts including special inducements and rebating are functioning in accordance with Company policies and procedures and statutory underwriting and rating requirements.

Recommendation(s): None.

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

General; M.G.L. c. 174A, § 5; M.G.L. c. 175A § 5, M.G.L. c. 175 § 193R;

Auto; M.G.L. c. 175E, § 4; 211 CMR 56.00, 86.00, 124.00, 134.00;

Objective: This Standard is concerned with whether unfair discrimination is occurring in the application of premium discounts and surcharges. M.G.L. c. 174A, § 5 states homeowner fire ratings will be determined by past history and not unfairly discriminatory. M.G.L. c. 175A, § 5 states auto rating will be determined by past history and not unfairly discriminatory. Pursuant to M.G.L. c. 175E, § 4, risks shall not be grouped by sex or marital status and shall not be grouped by age except to produce the reduction in rates for insureds age sixty-five years or older. Pursuant to M.G.L. c. 175, § 193R, affinity group discounts based upon experience are permitted. 211 CMR 56.00 mandates discounts for participating repair shops (the Company does not offer this to auto policyholders). 211 CMR 86.00 mandates discounts for autos equipped with anti-theft mechanisms. Pursuant to 211 CMR 124.00, insurers will provide discounts to autos equipped with proper safety features. Pursuant to 211 CMR 134.00, auto insurers are required to use Safe Driver Insurance Plan ratings which relate to corresponding discounts and surcharges.

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

- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges in accordance with M.G.L. c. 175E, § 4.
- Rates, premiums and discounts are determined by the Division annually, and such rate information is incorporated in the AIB Rating Manual. The Company applies such rates to information provided by the applicant and obtained from the Massachusetts Registry of Motor Vehicles. This information includes the location of garaged vehicles.
- The low mileage discount form, which verifies actual mileage, must be completed annually to receive the low mileage discount.
- The Company has elected not to offer optional repair shop endorsement plans.
- Written underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges for both homeowner and auto policies.
- The Company provides a premium discount of 2-15% to members of various affinity groups. The Company is required to provide the same discount to each member of the affinity group.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 new and renewal private passenger auto policies and 5 new and renewal homeowner policies for the period January 1, 2003 through June 30, 2004 for testing of rate classifications, premium discounts and surcharges. For each of the policies, Eide verified that the premium discounts and surcharges for multiple coverages complied with statutory and regulatory requirements.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing of 30 new and renewal private passenger auto policies and 5 new and renewed homeowner policies, it appears that policy premiums, premium discounts and surcharges for multiple coverages are calculated in compliance with statutory and regulatory requirements.

Recommendation(s): None.

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Standard VI-5. 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.

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Standard VI-6. Verification of use of the filed expense multipliers; the company should be using a combination of loss costs and expense multipliers filed with the Department.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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Standard VI-7. 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 because the Company does not offer workers' compensation insurance.

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Standard VI-8. Verification of experience modification factors.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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Standard VI-9. Verification of loss reporting.

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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

No work performed. This Standard is not covered in the scope of examination because the Company does not offer workers' compensation insurance.

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Standard VI-11. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.

General; M.G.L. c 175, § 193T;

Homeowners; M.G.L c 175, § 95B;

Auto; M.G.L. c. 175, §§ 4C, 22E, 95B, 113K, 113N; M.G.L. c. 175E, § 4;

Objective: This Standard is concerned with whether unfair discrimination is occurring in the sale of insurance. Pursuant to M.G.L. c. 175, § 22E, no insurance company, and no officer or producer thereof in its behalf, shall refuse to issue, renew or execute as surety a homeowners or motor vehicle liability policy or bond, or any other insurance based on the ownership or operation of a motor vehicle because of age, sex, race, occupation, marital status, or principal place of garaging of the vehicle. Pursuant to M.G.L. c. 175, § 95B, discrimination against abuse victims is prohibited in the course of underwriting property insurance. Pursuant to M.G.L. c. 175 § 4C, no insurance company engaged in the writing of homeowners insurance shall take into consideration when deciding whether to provide, renew or cancel homeowners insurance the race, color, religious creed, national origin, sex, age, ancestry, sexual orientation, children, marital status, veteran status, the receipt of public assistance or disability of the applicant. Pursuant to M.G.L. c. 175, § 113K, individuals over the age of 16 are entitled to receive auto insurance. M.G.L. c. 175, § 113N prohibits the use of physical examinations in the underwriting process. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation, or physical impairment unless verified by actuarial support. Pursuant to M.G.L. c. 175E, § 4, risks shall not be grouped by sex or marital status and shall not be grouped by age, except to produce the reduction in rates for insureds age sixty-five years or older.

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

- Company policy prohibits unfair discrimination in underwriting in accordance with M.G.L. c. 175E, § 4 and c. 175, § 22E and will accept any risk unless the consumer has outstanding balances due to insurers over the previous year or has a history of non-payment of premium over the past two years.
- Written underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 new and renewal private passenger auto policies and five

new and renewal homeowner policies for the period January 1, 2003 through June 30, 2004 for testing of evidence of unfair discrimination in underwriting. To assist with testing, Eide selected 30 cancelled private passenger auto policies and five cancelled homeowner policies for the same period to ensure that similar risks were not handled differently. All policies were compared to others with similar circumstances to ensure discounts and surcharges were applied in the same manner.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing of 35 new and renewal private passenger auto and homeowner policies and 35 cancelled private passenger and homeowner policies, we noted no evidence that the Company's underwriting practices are unfairly discriminatory.

Recommendation(s): None.

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Standard VI-12. All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the department of insurance (if applicable).

General; M.G.L. c. 175, § 2B, 22A and 192;

Auto; M.G.L. c. 175, § 113A;

Homeowners; M.G.L. c. 175, §§ 99, 99A, 99B, 111H; 211 CMR 131.00;

Objective: This Standard is concerned with whether policy forms and endorsements are filed with the Division for approval. M.G.L. c. 175, § 2B describes policy form language; all items forming a part of the contract are listed on the declaration page, and filed with the Division. M.G.L. c. 175, § 22A and 113A also state that such policy forms must be filed with the Division for prior approval. Pursuant to M.G.L. c. 175, § 192, endorsements are part of policy forms and also are required to be filed with the Division's prior approval. Pursuant to M.G.L. c. 175, § 99, 99A and 99B there are numerous disclosures and requirements that must be included on a standard fire policy. M.G.L. c. 175, § 111H requires that any policy providing lead liability coverage shall be subject to rules and regulations set forth by the Commissioner and 211 CMR 131.00 prescribes requirements for the filing of lead liability coverage rates with the Division.

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

- Company policy requires the use of the standard Massachusetts policy forms and endorsements which are approved by the Division for all private passenger auto.
- The Company utilizes industry standard forms for homeowners insurance and has all forms and endorsements approved by the Division.
- Producers are required to use such forms and endorsements as guidelines when providing a quote to consumers on a proper, consistent and fair basis.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 new and renewal private passenger auto policies and five new and renewal homeowner policies for the period January 1, 2003 through June 30, 2004 for testing of the use of the standard policy form and approved endorsements in compliance with statutory requirements. The standard form used for auto and homeowners policies, along with all endorsements effective on each policy, were compared to the forms approved by the Division.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing of 35 new and renewal private passenger auto policies, it appears that the Company is using the standard policy form and approved endorsements in compliance with statutory requirements.

Recommendation(s): None.

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

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

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Standard VI-14. Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

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

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

- Written policies and procedures are designed to reasonably assure consistency in application of underwriting guidelines, rating classifications, premium discounts and surcharges at the inception of coverage.
- For auto policies rates, premiums and discounts are determined by the Division annually, and such rate information is incorporated in the AIB Rating Manual. The Company applies such rates to information provided by the applicant and obtained from the Massachusetts Registry of Motor Vehicles.
- Homeowner policies rates, premiums and discounts are determined by past experience and such rate information is submitted annually to the Division on a timely basis.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 new and renewal private passenger auto policies and five new and renewal homeowner policies for the period January 1, 2003 through June 30, 2004 for testing of whether underwriting, rating and classification are based on adequate information developed at or near inception of the coverage. Discounts and surcharges given were traced to source documentation provided by producers. . In addition, Eide reviewed database information to ensure that information was available at the time the underwriting decision was made.

Transaction Testing Results:

Finding(s): One out of the 11 applicable auto policies received anti-theft discounts without any documentation of the anti-theft devices. Two out of the five applicable homeowners policies did not have adequate documentation for discounts given.

Observation(s): Through examining available supporting documentation of discounts and surcharges given, Eide believes that the Company is using information developed at or near the inception of policy coverage. However, for three policies tested, there was inadequate supporting documentation provided from the related producers to support whether the information was timely relative to policy issuance.

Recommendation(s): The Company's record retention rules should be examined to ensure producers are keeping the requested information for the amount of time required by Company policy to ensure that auto and homeowner policies have proper support for discounts given.

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Standard VI-15. File documentation adequately supports decisions made.

Objective: This Standard is concerned with whether or not the Company has adequate documentation to support the underwriting decisions made. This includes applications, support for discounts applied, physical inspections when required and motor vehicle reports.

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

- Written policies and procedures are designed to reasonably assure that required information is obtained and maintained by either the Company or its producers.
- The Company educates producers through various means including on-site training, online information and written guidelines.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 new and renewal private passenger auto policies and five new and renewal homeowner policies for the period January 1, 2003 through June 30, 2004 for

testing of whether adequate documentation exists to support underwriting decisions made. Eide also tested 30 cancellations for private passenger auto and five cancellations for homeowners policies for the period January 1, 2003 through June 30, 2004 for testing of adequate documentation to support underwriting decisions.

Transaction Testing Results:

Finding(s): One out of the 11 applicable auto policies received anti-theft discounts without any documentation of the anti-theft devices. Two out of the five applicable homeowners policies did not have adequate documentation for discounts or surcharges given.

Observation(s): Through examining available supporting documentation of discounts and surcharges given, Eide believes that the Company has procedures in place to ensure proper documentation exists to support underwriting decisions, however, in three of 70 files tested, the documentation to support decisions made was not complete.

Recommendation(s): The Company should ensure policies and procedures surrounding receiving and maintaining adequate documentation to support underwriting decisions are adhered to by producers of the Company.

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

Auto; M.G.L. c. 175, § 113S; 211 CMR 94.00;

Objective: This Standard is concerned with whether the Company issues policies and endorsements timely and accurately. Pursuant to M.G.L. c. 175, § 113S, inspection of vehicles is required for all but new vehicles and the vehicles of existing customers who have been customers for at least 3 years. 211 CMR 94.00 describes the standards and procedures for conducting car inspections and exemptions from such requirements.

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

- Company policy requires the use of the standard Massachusetts policy forms and endorsements which are approved by the Division.
- Producers are required to use such forms and endorsements as guidelines when providing quotes to consumers.
- Company supervisors review all applications completed by producers to ensure that they are complete and internally consistent.
- Company procedures include mailing renewal notice 28-35 days prior to the policy renewal effective date.
- Company policy requires vehicle inspections as described in M.G.L. c. 175, § 113S and 211 CMR 94.00.
- The Company compares information provided by the applicant to information obtained from the Massachusetts Registry of Motor Vehicles.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 new and renewal private passenger auto policies and five new and renewal homeowners policies for the period January 1, 2003 through June 30, 2004 for testing of whether new and renewal policies including endorsements were issued timely and accurate. For renewal policies, the date renewal letters were sent were compared to the effective date of coverage. For new policies, the policy documentation was examined for evidence that a vehicle inspection was performed and if one was not conducted verified the exception reason as noted in the file notes agreed to those approved by the Division.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing, it appears that the Company issues new and renewal policies, including endorsements, timely and accurately.

Recommendation(s): None.

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

No work performed. This Standard is not covered in the scope of examination because the Company does not offer policies where premium audits are conducted.

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

Auto; 211 CMR 94.08;

Objective: This Standard is concerned with whether the Company verifies that the VIN submitted with the application is valid and accurate. 211 CMR 94.08 requires that pre-insurance inspections of vehicles must verify the VIN.

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

- The producer is responsible for obtaining the VIN when the application is completed.
- Company policy and procedures require that pre-insurance inspections of vehicles verify the VIN as required by 211 CMR 94.08.
- The Company uses insurance industry software, which compares the entered VIN to its industry database, to verify the VIN is accurate as well as to provide the correct symbol to be used for that particular vehicle.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process with respect to capturing the VIN information. Eide performed walkthroughs of transactions to gain understanding of the VIN entry and how information is gathered. The walkthroughs provided comfort that improper VIN's would be captured through insurance industry software comparison.

Transaction Testing Results:

Finding(s): None.

Observation(s): Per discussion with Company personnel, each VIN is automatically checked by the Insurance industry software upon being entered into the database. Based on the results of our testing, it appears that the Company issues new and renewal private passenger auto policies with VIN's that are valid and accurate and that the Company is in compliance with the requirements of 211 CMR 94.08.

Recommendation(s): None.

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

General; M.G.L. c. 176D, §§ 3(4) and 3A;

Objective: This Standard is concerned with whether the Company has engaged in any collusive or anti-competitive underwriting practices. Pursuant to both M.G.L. c. 176D, § 3(4) and M.G.L. c. 176D, § 3A, it is an unfair method of competition and an unfair or deceptive act or practice in the business of insurance to enter into any agreement or to commit, or to commit, any act of boycott, coercion or intimidation resulting in, or tending to result in, unreasonable restraint of, or monopoly in, the business of insurance.

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

- Company policy is to accept any risk unless the consumer has outstanding balances due to insurers over the previous year or has a history of non-payment of premium over the past two years in compliance with statutory requirements.
- The Company is assigned producers by CAR known as Exclusive Representative Producers and must accept all business produced by them.
- Premium rates are determined annually by the Division and are consistent among all private passenger auto insurers. As such, anti-trust pricing concerns are minimal for private passenger auto policies.
- Homeowner premium rates are determined annually by the Company using past loss history experience. The Company timely submits the rate filings to the Division for prior approval.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 new and renewal private passenger auto policies and five new and renewed homeowner policies for the period January 1, 2004 through June 30, 2004 for testing whether any underwriting practices appear to be collusive or anti-competitive. Each sample policy file was looked at, including on-screen notes on the database, noting any evidence of possible collusive or anti-competitive behavior by the Company.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing, Eide noted no instances where the Company's underwriting policies and practices appear to be collusive or anti-competitive.

Recommendation(s): None.

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Standard VI-20. The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations in application of mass marketing plans.

General; M.G.L. c. 175, § 193R

Objective: This Standard is concerned with whether the Company's underwriting practices are not unfairly discriminatory and are in compliance with applicable statutes, rules and regulations. Pursuant to M.G.L. c. 175, § 193R, mass merchandising or group marketing is any system, design or plan whereby motor vehicle or homeowner insurance is afforded to employees of an employer, or to members of a trade union, association, or organization and to which the employer, trade union, association or organization has agreed to or in any way affiliated itself with, assisted, encouraged or participated in the sale of such insurance to its employees or members through a payroll deduction plan or otherwise.

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

- Written underwriting guidelines are designed to reasonably assure consistency in application of premium discounts and surcharges and to assure that underwriting practices are not unfairly discriminatory.
- The Company provides a premium discount of 2-15% to members of various affinity groups. The Company is required to provide the same discount to each member of the affinity group.
- Premium discounts available to affinity groups are filed with and approved by the Division.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the marketing and underwriting processes. Eide selected 30 new and renewal private passenger auto policies and five new and renewal homeowner policies for the period January 1, 2003 through June 30, 2004 for testing of premium discounts including those to affinity groups. Of the total sampled policies, one selected policy was a group policy. For this policy, Eide verified that the affinity group discount was properly applied and that the application was not unfairly discriminatory. In addition, Eide conducted a walkthrough of how the discounts are applied to gain comfort over the process and to ensure that the policy reviewed in the sample is indicative of the overall procedures in place.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing of 30 new and renewal private passenger auto policies and five new and renewal homeowner policies, it appears that each of the premium discounts including those to affinity groups were properly applied and that the application was not unfairly discriminatory.

Recommendation(s): None.

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

General: M.G.L. c. 175, § 193R.

Objective: This standard is concerned with whether all group policies meet the minimum requirements and whether the group exists for more than the sole purpose of receiving group rates. Pursuant to M.G.L. c. 175, § 193R, group ratings are allowed but must offer no rates higher than the same rate in the individual market, cannot cancel any individual within the group except for fraud or non-payment, and 3 years of group loss history is required to be maintained by the insurer.

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

- The Company has an approved group listing that is updated annually.

- The Company has procedures in place to ensure that ensured groups have been formed for more than the sole purpose of receiving group rates.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 new and renewal private passenger auto policies for the period January 1, 2004 through June 30, 2004 for testing whether group policies are properly approved and the same rates are offered in the individual market. Eide inquired that the approved group listing is complete and accurate. Traced each group policy to the list of approved groups and verified that the rates offered were also offered to the individual market

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing of 30 new and renewal private passenger auto policies, it appears the Company's group policy underwriting procedures are in compliance with statutory and regulatory requirements.

Recommendation(s): None.

* * * * *

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

General; M.G.L. c. 175 § 193T

Homeowners; M.G.L. c. 175, §§ 4C and 95B

Auto; M.G.L. c. 175, §§ 22E and 113D;

Objective: This Standard is concerned with the fairness of application rejections and declinations. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation, or physical impairment unless verified by actuarial support. Pursuant to M.G.L. c. 175, § 95B, discrimination against abuse victims is prohibited in the course of underwriting property insurance. M.G.L. c. 175, § 4C prohibits inappropriate non-discrimination in cancellations and non-renewals. Pursuant to M.G.L. c. 175, § 22E, no insurance company or producer thereof in its behalf, shall refuse to issue, renew or execute as surety a motor vehicle liability policy or bond, or any other insurance based on the ownership or operation of a motor vehicle because of age, sex, race, occupation, marital status, or principal place of garaging of the vehicle. In addition, M.G.L. c. 175, § 113D states that any person aggrieved by the refusal of any company or a producer thereof to issue such a policy may file a written complaint with the Commissioner within ten days after such refusal.

Controls Assessment: See Standard VI – 11.

Controls Reliance: See Standard VI – 11.

Transaction Testing Procedure: See Standard VI – 11.

Transaction Testing Results: See Standard VI – 11.

Recommendation(s): See Standard VI – 11.

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

General; M.G.L. c. 175, §§ 187C and 193R;

Homeowners; M.G.L. c. 175, §§ 99 and 193P

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

Objective: This Standard is concerned with notice to policyholders for cancellation, non-renewal and declinations including advance notice before expiration for cancellation and non-renewals. Pursuant to M.G.L. c. 175, § 22C, cancellation of auto policies can only occur due to nonpay, fraud and driver suspension or failure to comply with renewal requirements after 30 day notice. Pursuant to M.G.L. c. 175, § 113A, no cancellation of the policy shall be valid unless written notice of the specific reason or reasons for such cancellation is given at least twenty days prior to the effective date thereof, which date shall be set forth in the notice. Pursuant to M.G.L. c. 175, § 99 there are numerous disclosures and requirements that must be included on a standard fire policy M.G.L. c. 175, § 113F states that any Company which does not intend to issue, extend or renew a motor vehicle liability policy shall give written notice to the insured (or producer in certain circumstances) of its intent 45 days prior to the termination effective date. Such notice also must be sent to the Registry of Motor Vehicles. Every insurance producer or broker receiving such a notice from a company shall, within fifteen days of its receipt, send a copy of such notice to the insured, unless another insurer has issued a motor vehicle policy covering that insured's vehicles. Pursuant to M.G.L. c. 175, § 187C any Company shall effect cancellation by serving written notice thereof as provided by the policy and by paying the full return premium due. According to M.G.L. c. 175, § 193P, a minimum of 45 days written notice to policyholder is required to non-renew homeowner fire policy coverage along with reasons. M.G.L. c. 175, § 193R allows cancellation of an individual policy within a group policy only due to fraud or non-payment.

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

- Declination notice generally is given to the insured at the application date. Declination results from not maintaining a valid driver's license, having outstanding balances due to insurers over the previous year, or having a history of non-payment of premium over the past two years.
- Company policy requires that cancellation notices are required to be mailed at least 21-23 days prior to cancellation. The notice includes cancellation date and possible remedies available to the insured.

- Company policy requires that notice of non-renewal be sent to the insured or producer at least 45 days in advance of the termination effective date. Such producers are required to provide any such notice to insureds within 15 days.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 cancelled and non-renewal private passenger auto policies and five cancelled and non-renewal homeowner policies for the period January 1, 2003 through June 30, 2004 for testing that the policy was cancelled only due to reasons in compliance with statutory requirements and notice sent within statutory requirements. For each auto policy cancellation, noted that cancellation only due to non-payment, failure to maintain a valid driver's license, or existence of non-payment of premiums over the past two years. Each homeowner cancellation reason was traced to the Company's underwriting cancellation policy guidelines. For both auto and homeowner cancellations, verified that the cancellation form used was the standard approved form. In addition, for both auto and homeowner cancellations, the date the letter was sent was compared to the effective end date of coverage to ensure notices were sent timely and within statutory guidelines.

Transaction Testing Results:

Finding(s): None

Observation(s): Based on the results of the sample tested, we concluded that the Company appears to be in compliance with statutory requirements.

Recommendation(s): None

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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.

General: M.G.L. c. 175, §§ 187C, 193P and 193R;

Auto: M.G.L. c. 175, §§ 4C, 22C, 113A and 113F;

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

* * * * *

Standard VI-25. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

General; M.G.L. c. 175, §§ 187B and 187C;

Auto; M.G.L. c. 175, §§ 113A and 176A; 211 CMR 85.00;

Objective: This Standard is concerned with properly calculating and returning unearned premium when policies are cancelled in a timely manner. M.G.L. c 175, § 113A provides, in part, that in the event of cancellation of a motor vehicle policy by either the insured or the company, the insured, if he has paid the premium to the company, is entitled to a return of premium calculated on a pro rata basis. Under M.G.L. c. 175, § 176A, premium refunds due to cancellations must be paid within 30 days to the policyholder and notice must be given. Pursuant to M.G.L. c. 175, § 187B, a company is required to refund the proper amount of unearned premium upon policy termination. Under M.G.L. c. 175, § 187C, a company canceling a policy of insurance must tender the full return premium due, without deductions, at the time the cancellation notice is served on the insured. Additionally, pursuant to 211 CMR 85.00, short rate tables may be required to be used to calculate premium refunds depending on when the cancellation occurred.

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

- Company policy requires that premium refunds on cancellations be calculated properly and paid timely.
- The Company uses a pro-rata method or short rate table method depending upon when the cancellation occurred.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process and selected 30 auto policy cancellations and non-renewals and five homeowner policy cancellations and non-renewals for the period January 1, 2003 to June 30, 2004 for testing of proper refund amounts and timely payment. Of the 35 tested cancellation policies 16 had a refund due. The date on the return of premium check was compared to the effective end date of policy coverage.

Transaction Testing Results:

Finding(s): None.

Observation(s): Based on the results of our testing of the 16 requested cancellations for the period January 1, 2003 through June 30, 2004 with refunds due, premium refunds appear to be calculated properly and returned timely.

Recommendation(s): None.

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

General; M.G.L. c. 175, § 187D;

Auto; M.G.L. c. 175, § 22C;

Objective: This Standard is concerned with whether decisions to rescind and to cancel coverage are made appropriately. M.G.L. c. 175, § 22C states that a motor vehicle policy shall not be cancelled by the company except for nonpayment of premiums, the failure to complete the application, fraud or material misrepresentation in the application or unless the operator's license or motor vehicle registration of the named insured or of any other person who resides in the same household as the named insured and who usually operates a motor vehicle insured under the policy has been under suspension or revocation during the policy period, or if the insured refuses to comply with a request for inspection of his vehicle by the insurer. M.G.L. c. 175, § 187D also allows the cancellation of the policy for nonpayment of premium.

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

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

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process. Eide selected 30 cancelled and non-renewal private passenger auto policies and five cancelled and non-renewal homeowner policies for the period January 1, 2003 through June 30, 2004 for testing of cancellations to ensure they are within statutory requirements. The reason for cancellation for each policy was inspected to ensure they were within statutory guidelines.

Transaction Testing Results:

Finding(s): None.

Observation(s): Of the 30 cancelled auto policies, 10 were non-pay, 9 were plate returns, 9 were change of carrier and 2 were non-renewal. Of the five cancelled homeowner policies, 2 were non-renewal due to company guidelines, two were change of carriers, and 1 was a change of policy type. Based on the results of our testing of cancellations for the period January 1, 2003 through June 30, 2004 do not appear to be made in violation of statutory requirements.

Recommendation(s): None.

* * * * *

Standard VI-27. All policies are correctly coded.

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

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

- The Company has written underwriting policies and procedures which are designed to reasonably assure consistency in classification and rating.
- Rates, premiums and discounts are determined by the Division annually, and such rate information is incorporated in the AIB Rating Manual. The Company applies such rates to information provided by the applicant and obtained from the Massachusetts Registry of Motor Vehicles.
- CAR conducts periodic audits of the Company's compliance with CAR requirements for business ceded to CAR.
- The Company's policies and procedures require that Company personnel confirm that the coding as reported by the producer is correct and current.
- The Company has a process to correct data errors and make subsequent changes, as needed.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for the underwriting process to determine the controls over ensuring statistical reports are completed accurately and timely. Eide reviewed the latest audit reports from CAR on the Company's compliance with CAR statistical coding requirements for key policy determinants and to determine completeness and accuracy of data.

Transaction Testing Results:

Finding(s): The CAR audit issued in September of 2003 stated that 232 statistical errors were detected of the 6,989 statistical fields verified (3.3 % of the fields contained errors). Those statistical errors resulted in 43 rating discrepancies. It was noted that 28 of the 43 rating errors are for low mileage discount. The Company began to verify these discounts when the Registry of Motor Vehicles made the information available in January 2003.

Observation(s): Based on the results of our review of CAR audits performed during the examination period, it appears that the Company statistical error rate is higher than industry average. The average statistical error rating of the 11 most previous CAR audited companies is 1.7% while Safety's error rating is 3.3%.

Recommendation(s): The Company should ensure policies and procedures surrounding receiving and maintaining adequate documentation to support underwriting decisions are adhered to by producers of the Company

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VII. CLAIMS

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

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

General; M.G.L. c. 176D, § 3(9)(b);

Objective: The Standard is concerned with the timeliness of the Company's contact with the claimant. Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

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

- Written policies and procedures govern the claims handling process.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- Company policy is to respond to the claim within two business days upon receipt of notice of claim.
- Written claim forms received via fax or mail are acknowledged and a written response is made within two business days after notification of the claim is provided.
- All claim notifications are maintained on a mainframe based automated claims management system.
- CAR policy is to respond to all physical damage claims within two business days from the receipt of a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- CAR policy is to contact all injured persons, or their legal representatives, within two business days of receipt of a claim.
- CAR policy is to contact an uninjured person, or their legal representatives, within three business days of receipt of a claim.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims and 35 closed-without-payment (denied) claims between January 1, 2003 and June 30, 2004. For each of the selected claims Eide verified the date the claim was reported to the Company and noted whether or not the initial response by the Company was acknowledged in a reasonably timely manner.

Transaction Testing Results:

Finding(s): None

Observation(s): For all paid and closed-without-payment claims selected for testing, we noted the claims were reported according to the Company's policies and procedures and that the initial contact by the Company with the claimant was timely. Based upon the results of our testing, it appears that the Company's processes to report and respond to claims are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendation(s): None

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Standard VII-2. Timely investigations are conducted.

General; M.G.L. c. 176D, § 3(9)(c);

Objective: The Standard is concerned with the timeliness of the Company's claims investigations. Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim.

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

- Written policies and procedures govern the claims handling process.
- All claim notifications are maintained on a mainframe based automated claims management system.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- Company policy is to respond to all physical damage claims within two business days from the receipt of a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- Company policy is to contact all injured persons, or legal representatives, within two business days of receipt of a claim.
- All injured persons claims are handled by claims staff dedicated to handling bodily injury claims in which the claimant is typically represented by an attorney.
- Claims adjusters maintain a chronological diary system to ensure timely activity on claims investigations.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

- Claims management uses exception reports to measure operational effectiveness and processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims and 35 closed-without-payment claims from January 1, 2003 through June 30, 2004 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims Eide verified the date the claim was reported to the Company and noted the investigation by the Company was conducted in a reasonably timely manner.

Transaction Testing Results:

Finding(s): None.

Observation(s): For all paid and closed-without-payment claims selected for testing, Eide noted the claims were reported according to the Company's policies and procedures and that the claims investigation by the Company appeared timely. Based upon the results of our testing, it appears that the Company's processes to report and investigate claims are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendation(s): None.

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

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

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

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

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

M.G.L. c. 175, § 113O states payments to the insured under theft or comprehensive coverage shall not be paid until a claim form has been received from the insured stating that the repair work described in an appraisal made pursuant to regulations promulgated by the auto damage appraiser

licensing board has been completed. Insurers are required to make such payments within seven days of receipt of the above claim form. However, direct payments to insureds without a claim form may be made in accordance with a plan filed and approved by the Commissioner. Any such plan filed with the Commissioner must meet stated standards with regard to procedures for selecting approved repair shops, vehicle inspection, insurer guarantees of the quality and workmanship used on making repairs, and prohibitions on discrimination for selection of vehicles for inspection. 211 CMR 123.00 sets forth procedures for the Commissioner's approval of, and minimum requirements for, direct payment and referral repair shop plans.

M.G.L. c. 175, § 191A requires insureds to give timely notice of a property damage loss to the company or its producer. Further, in the event of theft, reporting to the police by the insured is also required. The company must pay such claims within sixty days after filing a proof of loss. The statute also sets forth a process to select a disinterested appraiser in the event the insured and the company fail to agree as to the amount of loss.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to resolve all claims in a timely manner.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- All claim notifications are logged in the claims system when reported.
- All claims investigations are handled by adjusters not to exceed a defined dollar limit to their settlement authority.
- Company policy is to respond to all physical damage claims within two business days from the receipt of a loss report. Appraisers are dispatched to adjudicate all physical damage claims.
- For non-direct payment plan physical damage claims, the Company's policy is to make payment within seven business days upon receipt of an appraisal in accordance with M.G.L. c. 175, § 113O.
- The Company's direct payment plan for physical damage claims has been approved by the Division in accordance with 211 CMR 123.00. Company policy is to make direct payments as required by the plan within five days upon completion of an appraisal.
- The Company's policy is to resolve claims in compliance with M.G.L. c. 175, § 112.
- Property damage claims are paid within sixty days of receipt of a proof of loss as required by M.G.L. c. 175, § 191A. Further, although a very rare occurrence, the Company's policy is to abide by the statutory requirements to select a disinterested appraiser in the event the Company and the insured fail to agree on the amount of a loss.
- Company policy is to contact all injured persons or their legal representatives within two business days of receipt of a claim.
- All injured persons claims are handled by claims staff dedicated to handling bodily injury claims in which the claimant is typically represented by an attorney.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims and 35 closed-without-payment claims from January 1, 2003 through June 30, 2004 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims, Eide verified the date the claim was reported to the Company and noted the claim was resolved by the Company in a reasonably timely manner.

Transaction Testing Results:

Finding(s): None.

Observation(s): For each of the claims selected for testing, Eide noted the claims were handled and adjudicated according to the Company's policies and procedures and resolved in a timely manner. Further, for each of the selected claims, Eide verified the date the claim was reported to the Company and noted whether or not the claim was resolved in a reasonably timely manner. Of the 35 paid claims tested, 12 were property damage claims and paid within sixty days of receipt of a proof of loss as required by M.G.L. c. 175, § 191A. Eide verified the Company's direct payment and referral repair shop plan has been approved by Commissioner as required by 211 CMR 123.00. Based upon the results of our testing, it appears that the Company's processes to resolve claims timely are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendation(s) None.

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

General; M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e).

Objective: The Standard is concerned with the timeliness of the Company's response to all claim correspondence. Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to act reasonably promptly upon communications with respect to claims arising under insurance policies. M.G.L. c. 176D, § 3(9)(e) considers failure to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed an unfair trade practice.

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

- Company policy is to respond to questions about claims in a timely manner.
- Company policy is to investigate and resolve all claims according to Company performance standards.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.

- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims and 35 closed-without-payment claims from January 1, 2003 through June 30, 2004 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims, Eide verified the date the claim was reported to the Company and noted the Company's timely responses to claims correspondence.

Transaction Testing Results:

Finding(s): None.

Observation(s): For all claims selected for testing, Eide noted the claims were reported and investigated according to the Company's policies and procedures and responses to claims correspondence were timely. Based upon the results of our testing, it appears that the Company's processes to provide timely responses to claims correspondence are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendation(s): None.

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Standard VII-5. Claim files are adequately documented.

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

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

- Claim processing guidelines require that key information be completed, signed, and included in the file, including:
 - o Notice of loss with relevant accident date, accident description, and involved parties.
 - o Relevant reports from investigating police authorities.
 - o Applicable medical reports and other investigative correspondence.
 - o Other pertinent written communication.
 - o All legal correspondence.
 - o Documented or recorded telephone communication.
 - o Claim activity is logged and documented in chronological order.
 - o Claim reserve evaluations, adjustments and assessments are documented.

- o Source correspondence and investigative reports are scanned and maintained electronically.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims and 35 closed-without-payment claims from January 1, 2003 through June 30, 2004 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims Eide reviewed the claim files and noted whether claim file documentation was adequate.

Transaction Testing Results:

Finding(s): None.

Observation(s): For all claims selected for testing, Eide noted the claims were reported and investigated according to the Company's policies and procedures and claim file documentation was adequate. Based upon the results of our testing, it appears that the Company's processes to document claims are functioning in accordance with their policies and procedures.

Recommendation(s): None.

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

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

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

Objective: The Standard is concerned with whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee. Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear as an unfair trade practice.

M.G.L. c. 175, § 22I allows companies to retain unpaid premium due from claim settlements. Claim payments must also comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Medical reports must be furnished to injured persons or their attorney pursuant to M.G.L. c. 175, §§ 111F and 113J. In addition, M.G.L. c. 175, § 112C requires companies to reveal to an injured party making a claim against an insured, the amount of the limits of said insured's liability coverage upon receiving a request in writing for such information.

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

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

M.G.L. c. 175 § 193K prohibits discrimination by companies in the reimbursement of proper expenses paid to certain professions and occupations, such as physicians or chiropractors, licensed in Massachusetts pursuant to M.G.L. c. 112.

211 CMR 133.00 sets forth uniform standards for repair of damaged motor vehicles and only applies when an insurer pays for the costs of repairs. The regulation addresses how damage and repair costs are determined, requires like kind repair parts are used, and sets forth methods for determining vehicle values. It further allows vehicles deemed a total loss to be repaired subject to certain requirements and limits. Lastly, the regulation requires an insurer to have licensed appraisers conduct "intensified" appraisals of at least 25% of all damaged vehicles for which the damage is less than \$1,000 and 75% of all damaged vehicles for which the appraised cost of repair is more than \$4,000 for collision, limited collision, and comprehensive claims. The "intensified" appraisal is to determine if the repairs were made in accordance with the initial appraisal and any supplemental appraisals.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- All claim notifications are maintained on a mainframe based automated claims management system.
- All claims investigations are handled by adjustors up to a defined dollar limit to their settlement authority.
- The Company has procedures to comply with requirements in M.G.L. c. 175, §§ 111F, 113J and 112C to furnish medical reports and/or the amount of the insured's policy limits, upon receiving requests for such information from a claimant or their attorney.
- The Company has procedures to comply with requirements in M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support for certain defined claim payments.
- The Company has procedures to comply with requirements in M.G.L. c. 175, § 113O to verify a police report was properly filed prior to making payments for theft coverage. Further, the Company has procedures to report such thefts to the National Insurance Crime Bureau as required by 211 CMR 75.00.
- The Company's policy prohibits discrimination in the reimbursement of proper expenses paid to certain professions and occupations as required by M.G.L. c. 175 § 193K.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims and 35 closed-without-payment claims from January 1, 2003 through June 30, 2004 to evaluate compliance with Company claims handling policies and procedures. Further, for each of the selected claims, Eide verified the claim was handled in accordance with policy provisions, statutory and regulatory requirements, as applicable.

Transaction Testing Results:

Finding(s): None.

Observation(s): For the 35 paid claims selected for testing, Eide noted eight of the claims had a written request for disclosure of the insured's liability policy limits. The Company responded to the request within 30 days as required by M.G.L. c. 175, § 112C in each case. Eide noted two theft claims in our sample and noted the Company complied with requirements in M.G.L. c. 175, § 113O to verify a police report was properly filed prior to making payments for theft coverage. Further, the Company reported the theft to the

National Insurance Crime Bureau within five working days, as required by 211 CMR 75.00.

Eide verified the Company has procedures in place to provide claimants with a list of registered repair shops as well as those repair shops which qualify as a referral shop as required by 211 CMR 123.00. Further, Eide noted the Company performs re-inspections of repaired vehicles following completion of repairs according to the requirements of 211 CMR 123.00.

Based upon the results of our testing, it appears that the Company's processes to handle claims in accordance with policy provisions, statutory and regulatory requirements are functioning in accordance with their policies and procedures.

Recommendation(s): None.

* * * * *

Standard VII-7. The company uses the reservation of rights and excess of loss letters, where appropriate.
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Objective: The Standard is concerned with the Company's usage of reservation of rights letters and its procedures for notifying an insured when it is apparent that the amount of loss will exceed policy limits.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- All claims investigations are handled by adjustors up to a defined dollar limit to their settlement authority.
- The Company uses reservation of rights and excess of loss letters when circumstances warrant.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims and 35 closed-without-payment claims from January 1, 2003 through June 30, 2004 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims, Eide reviewed the claim files and noted whether reservations of rights or excess loss letters were warranted.

Transaction Testing Results:

Finding(s): None.

Observation(s): For all paid and closed-without-payment claims selected for testing, Eide noted the claims were reported and investigated according to the Company's policies and procedures and claim file documentation was adequate. Based upon the results of our testing, it appears that the Company's processes to utilize reservation of rights and excess loss letters to claims are functioning in accordance with their policies and procedures.

Recommendation(s): None.

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Standard VII-8. Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.
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Objective: The Standard is concerned with the Company's timely refund of deductibles from subrogation proceeds.

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

- Written policies and procedures govern the claims handling process including subrogated claims.
- Company policy is to resolve all subrogated claims in a timely manner.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- When liability or coverage issues are undisputed with another carrier, the Company waives the deductible to its insured.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims from January 1, 2003 through June 30, 2004 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims, Eide reviewed the claim files and noted whether subrogation recoveries were timely and accurate.

Transaction Testing Results:

Finding(s): None.

Observation(s): For all paid claims and closed-without-payments selected for testing, Eide noted the subrogation recoveries were timely and accurate according to the Company's policies and procedures and the claim file documentation were adequate. Based upon the results of our testing, it appears that the Company's processes to make subrogation recoveries to insureds are functioning in accordance with their policies and procedures.

Recommendation(s): None.

* * * * *

Standard VII-9. Company claim forms are appropriate for the type of product.

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

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

- Industry standardized claims reporting forms are utilized which are appropriate for the Company's line of business.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- Claim processing guidelines require that key documentation be completed, signed, and included in the file, including: notice of loss with relevant accident date, accident description, and involved parties.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims and 35 closed-without-payment claims from January 1, 2003 through June 30, 2004 to evaluate compliance with Company claims handling policies and procedures. For each of the selected claims, Eide reviewed the claim files and noted whether the claim reporting was appropriate.

Transaction Testing Results:

Finding(s): None.

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

Recommendation(s): None.

* * * * *

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

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

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

- Written policies and procedures govern the claims handling process.
- Company policy is to evaluate claims timely and establish adequate reserves on all reported claims.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- Claim processing guidelines require that key information be completed, signed, and included in the file, including:
 - Notice of loss with relevant date of loss, description, and involved parties.
 - Relevant reports from investigating police authorities.
 - Applicable medical reports and other investigative correspondence.
 - Other pertinent written communication.
 - All legal correspondence.
 - Documented or recorded telephone communication.
 - Claim activity is logged and documented in chronological order.
 - Claim reserve evaluations, adjustments and assessments are documented.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims reserving processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims to evaluate compliance with Company claims reserving policies and procedures. For each of the selected claims, Eide verified the date the claim was reported to the Company and noted that claim reserves were evaluated, established and adjusted in a reasonably timely manner. Eide also reviewed the financial examination workpapers to provide support as to the adequacy of reserving.

Transaction Testing Results:

Finding(s): None.

Observation(s): For each of the claims selected for testing, Eide noted that claim reserves were evaluated, established and adjusted according to the Company's policies and procedures and that the claims investigation by the Company appeared timely. Based upon the results of our testing, it appears that the Company's processes to evaluate, establish and adjust claim reserves are functioning in accordance with their policies and procedures and are reasonably timely.

Recommendation(s): None.

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Standard VII-11. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

General; M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n);

Objective: The Standard is concerned with the adequacy of the Company's decision-making and documentation of denied and closed-without-payment claims. Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Pursuant to M.G.L. c. 176D, § 3(9)(h), unfair claims settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he or she was entitled to receive. M.G.L. c. 176D, § 3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim as an unfair claims settlement practice.

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

- Company policy requires that denials must include contractual basis for non-payment and inform the claimant of their right to appeal.
- All claim notifications are maintained on a mainframe based automated claims management system.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- All claims investigations are handled by adjustors not to exceed a defined dollar limit to their settlement authority.
- Claims management can access the claims system to monitor open claims.

- A written explanation of all denied claims and closed-without-payment claims is provided to a claimant.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 closed-without-payment claims from January 1, 2003 through June 30, 2004 to evaluate compliance with Company claims handling policies and procedures. Eide verified the date the claim was reported, reviewed correspondence and investigative reports and noted whether the Company handled the claim timely and properly before closing it.

Transaction Testing Results:

Finding(s): None.

Observation(s): For the closed-without-payment claims tested, documentation appeared to be complete including correspondence and other documentation. Further, the Company's conclusion appeared reasonable. Based upon the results of our testing, it appears that the Company's processes do not unreasonably deny claims or delay payment of claims.

Recommendation(s): None.

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<p>Standard VII-12. Cancelled benefit checks and drafts reflect appropriate claim handling practices.</p>
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Objective: The Standard is concerned with the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices.

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

- Written policies and procedures govern the claims payment process.
- Company policy is to handle all claims in accordance with policy provisions and state law.
- Company policy and claims payment procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- All claims investigations are handled by adjustors up to a defined dollar limit to their settlement authority.
- Company procedures verify the proper payee and amount and amount prior to check issuance.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims payment processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid claims from January 1, 2004 through June 30, 2004 to evaluate compliance with Company claims payment policies and procedures. For each of the selected claims, Eide reviewed the claim files and noted whether claim payment practices were appropriate.

Transaction Testing Results:

Finding(s): None.

Observation(s): For all claims selected for testing, Eide noted the claims were reported and investigated according to the Company's policies and procedures and claim payment documentation was adequate. Eide noted no instances where claim payment practices appeared inappropriate. Eide also noted that claims handling practices are consistent for both CAR and voluntary business since the claim adjuster is unaware of whether or not the claim is voluntary or CAR. Based upon the results of our testing, it appears that the Company's processes to issue claim payment checks are appropriate and functioning in accordance with their policies and procedures.

Recommendation(s): None.

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Standard VII-13. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

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

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

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

- Claims handling guidelines require the uniform and consistent handling of claims settlement and payment of claims.
- Company policy is to contact all injured persons or their legal representatives within two business days of receipt of a claim.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.

- All injured persons claims are handled by claims staff dedicated to handling bodily injury claims in which the claimant is typically represented by an attorney.
- Claims management performs periodic claims reviews to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and processing times to monitor claims processing activities.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Eide selected a sample of 35 paid and 35 closed-without-payment claims to evaluate compliance with Company claims handling policies and procedures. Of the 70 claims selected, Eide noted 14 of the claims involved litigation in a bodily injury or collision claim. Eide verified the date the claim was reported, reviewed correspondence, and investigative reports and noted the whether the Company handled the claim timely and properly.

Transaction Testing Results:

Finding(s): None.

Observation(s): For the 14 claims selected that involved litigation, documentation appeared to be complete including correspondence and other documentation. Further, the Company's conclusion appeared reasonable. Eide also noted that claims handling practices are consistent for both CAR and voluntary business since the claim adjuster is unaware of whether or not the claim is voluntary or CAR. Based upon the results of our testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to instigate litigation.

Recommendation(s): None.

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

General ; M.G.L. c. 175A, § 15(a);

Auto; 211 CMR 15.07;

Objective The Standard is concerned with the Company's complete and accurate reporting of loss statistical data to appropriate rating bureaus. Pursuant to M.G.L. c. 175A, § 15(a), insurers must record and report their loss and countrywide expense experience in accordance with the statistical plan promulgated by the Commissioner in accordance with the rating system on file with the Commissioner and the Commissioner may designate rating agency or agencies to assist her in the compilation of such data. In accordance with 211 CMR 15.07, the Commissioner established and fixed the Automobile Statistical Plan for Fire, Theft, Comprehensive, Collision and Allied Coverages (dated April 8, 1971) as the statistical plan to be used in accordance with M.G.L. c. 175A, § 15(a).

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

- Company policy is to report loss data to appropriate rating bureaus timely and with complete and accurate loss data.
- The Company reports loss data to CAR in a format required by CAR. Participation in CAR is mandatory for all insurers writing private passenger automobile insurance in Massachusetts.
- Company policy and claims handling procedures do not make a distinction between claims in which the insured's policy is ceded to CAR or retained by the Company.
- The Company also reports loss data to AIB, which is a rating bureau that represents the insurance industry in rate hearings before the Commissioner of Insurance.
- Detailed claim data is reported quarterly to CAR and AIB. The claim data includes loss experience by line of business, type of loss, dollar amounts, claim counts, accident dates, territory, etc.
- Claims management personnel reconcile the underlying data for completeness and accuracy. Exceptions reports are generated to ensure the loss data is properly reported.

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

Transaction Testing Procedure: Eide interviewed Company personnel to understand loss statistical reporting processes and obtained documentation supporting such processes. Additionally, Eide reviewed the latest audit reports from CAR on the Company's compliance with CAR statistical coding requirements for key policy determinants for business ceded to CAR.

Transaction Testing Results:

Finding(s): None.

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

Recommendation(s): None.

SUMMARY

Based upon the procedures performed in this comprehensive examination, Eide has reviewed and tested Company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims as set forth in the *NAIC Market Conduct Examiner's Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. Eide has made recommendations to address various concerns related to company operations and management, complaint handling, marketing and sales, producer licensing and underwriting and rating.

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

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

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

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

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