

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

Report on the Comprehensive Market Conduct Examination of

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

Boston, Massachusetts

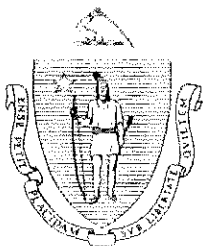
For the Period January 1, 2013 through December 31, 2013

NAIC COMPANY CODES: 39454, 33618, 12808

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

TABLE OF CONTENTS

	PAGE
SALUTATION	3
SCOPE OF EXAMINATION	4
EXAMINATION APPROACH	4
EXECUTIVE SUMMARY	5
COMPANY BACKGROUND	10
COMPANY OPERATIONS/MANAGEMENT	11
COMPLAINT HANDLING	23
MARKETING AND SALES	27
PRODUCER LICENSING	31
POLICYHOLDER SERVICE	36
UNDERWRITING AND RATING	42
CLAIMS	59
SUMMARY	70
ACKNOWLEDGMENT	71
APPENDIX A – PROPERTY CASUALTY EXAMINATION STANDARDS AND MASSACHUSETTS AUTHORITIES	



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

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

DEVAL L. PATRICK
GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

November 14, 2014

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

Dear Commissioner Murphy:

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

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

at their home offices located at:

20 Custom House Street
Boston, Massachusetts 02110

The following report thereon is respectfully submitted.

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

SCOPE OF EXAMINATION

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

EXAMINATION APPROACH

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

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

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

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

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

EXECUTIVE SUMMARY

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

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

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

SECTION I-COMPANY OPERATIONS/MANAGEMENT

STANDARD I-18

Findings: None.

Observations: Based upon RNA's review of the Company's statutorily-required 2013 homeowners underwriting and claims data submitted to the Division, the examination data, and 2013 Market Conduct Annual Statement ("MCAS") data submitted to the NAIC, the initial private passenger automobile cancellation data and the personal lines non-renewal data was not accurate or complete. As a result, the Company provided revised examination data and filed revised MCAS filings with the NAIC and statutorily-required data with the Division. The remaining examination data and MCAS data provided by the Company appeared to be accurate and complete.

Recommendations: The Company should enhance its controls and procedures to ensure that underwriting cancellation and non-renewal data reported in MCAS and filed with the Division is accurate and complete. Also, the Company should complete an independent review of MCAS filings prior to filing with the NAIC and of statutorily-required data with the Division, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems.

Subsequent Company Actions: The Company is enhancing its procedure and control environment to ensure the complete and accurate reporting of all data elements within the annual MCAS filing.

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

SECTION III-MARKETING AND SALES

STANDARD III-1

Observations: RNA noted that the tested materials appeared accurate and reasonable, and the Company's website disclosure complies with Division requirements. Approval of marketing materials is obtained orally. RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: The Company should document approval of marketing materials in writing, by email or through approval documentation in the marketing materials log.

SECTION IV-PRODUCER LICENSING

STANDARD IV-1

Findings: For one homeowners policy and one private passenger automobile policy tested, the producers, who were party to agency contracts with the Company, were not appointed as agents in the Division's On-Line Producer Appointment System ("OPRA") system prior to, or concurrent with the sale, in accordance with M.G.L. c. 175, § 162S.

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

Required Actions: The Company shall enhance its controls and procedures over agent appointments, provide guidance to staff on the new controls and procedures, and conduct independent monitoring by June 30, 2015, or another agreed upon date, to ensure that the new controls and procedures have been effectively implemented. The results of the independent monitoring shall be reported to the Division.

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

STANDARD IV-3

Findings: One agent appointment termination was not made with the Division through OPRA timely (within 30 days following the effective date of the termination) in violation of M.G.L. c. 175, § 162T.

Observations: Two agent appointments were terminated in OPRA, but the effective dates of the terminations were 9 months and 50 days, respectively, earlier than the effective dates of the terminations by contract. For the remaining agent appointment termination, the Company properly notified the Division of the appointment termination through the OPRA system in compliance with statutory requirements. For each of the tested appointment terminations, the Company was able to provide evidence of timely notice to the agents in compliance with statutory requirements, as appropriate.

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

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

Subsequent Company Actions: The Company is adopting new controls and procedures to address these required actions. Management has changed its procedures to use the termination effective date in the agent's termination later to report the termination in OPRA.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-1

Findings: RNA testing indicated that the premium for one homeowners policy was overcharged in violation of M.G.L. c. 174A, §§ 5 and 9. At the request of the Division, the Company reviewed similar homeowners policies for the period 2012-2014 and determined that 107 homeowners policies were affected by this rating error.

Observations: Based upon testing, except as noted above, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that original cost new and appropriate depreciation factors were applied to policy premiums. Testing also noted that at-fault accident determinations were timely reported to the Merit Rating Board; appeal notices were properly provided to at-fault operators, and vacated surcharges were properly processed in accordance with statutory and regulatory requirements. Finally, the Company properly reflected mid-term driver experience classification changes in its premium calculations, in accordance with its Division rate filings.

Required Actions: The Company shall provide premium refunds and 6% annual interest to consumers for any homeowners premiums overcharged, with a summary of the refunds and interest reported to the Division. The Company shall adopt new controls and procedures to ensure that premium rates for homeowners policies are applied in accordance with the Company's rate filings. Additionally, the Company shall provide training or guidance to staff about these new controls and procedures. Finally, the Company shall complete an independent assessment of the effectiveness of the new controls and procedures by June 30, 2015, or another agreed upon date, and report the results of the assessment to the Division.

Subsequent Company Actions: The Company is providing homeowners premium refunds and 6% annual interest and addressing the items in the required actions.

STANDARD VI-7

Findings: RNA noted that the Company and its producers were not able to provide written declination notices for the 20 selections tested. Further, 10 of the 20 selections were declinations or refusals to quote homeowners business based on credit-based insurance scores, such that a Fair Credit Reporting Act ("FCRA") adverse action notice should have been provided by the producers to the applicants, with notice copies retained by the producers for five years.

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

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

Required Actions: The Company shall provide notice to all producers reminding them of their responsibility to provide FCRA adverse action notices as required by Federal Law, when the credit-based insurance score requirement is not met, and to retain all such notices for five years, subject to audits by the Company. Also, the Company shall require producers to provide information to the Company about applications declined, or refused quoting, by the producers on the Company's behalf, due to inadequate insurance score. Further, the Company shall conduct periodic agency audit procedures from that information to ensure that the FCRA adverse action notices have been properly and timely provided to applicants.

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

STANDARD VI-8

Findings: One homeowners company-initiated cancellation notice was not provided to the policyholder in accordance with M.G.L. c. 175, § 99.

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

Required Actions: The Company shall ensure that all company-initiated cancellations are issued with adequate time notice and contain reasons that are adequately specific, by reviewing current controls and procedures, making any required changes, and providing appropriate training or guidance to staff.

Subsequent Company Actions: The Company is adopting enhanced systems, procedures and controls to address the required actions.

SECTION VII-CLAIMS

STANDARD VII-6

Findings: Testing indicated that one automobile theft was not timely reported to the National Insurance Crime Bureau ("NICB") in accordance with 211 CMR 75.00.

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

Required Actions: The Company shall adopt enhance control procedures to address the requirements of 211 CMR 75.00. Further, the Company shall provide training or guidance to claims adjusters on proper and timely implementation of these procedures.

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

Subsequent Company Actions: Company management has reviewed the exception with the handling adjuster and will implement additional management oversight protocols to ensure full compliance with the reporting requirement.

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

COMPANY BACKGROUND

Safety Insurance Group, Inc. is the ultimate controlling company for a group of insurers that includes SIC, SIIC and SPCIC. The Company offers a wide range of property and casualty products and services to businesses and individuals in Massachusetts and New Hampshire distributed through independent producers and agents. In Massachusetts, the Company offers private passenger automobile, homeowners, and personal umbrella insurance to individuals. The Company also offers business owners, commercial automobile, and commercial package insurance to businesses.

The Company's business is subject to a pooling arrangement where business written in each insurance company is ceded to SIC, SIIC and SPCIC in the ratios of 90%, 7% and 3%, respectively. SIC writes all private passenger automobile business and other lines of business at standard rates. SIIC is the preferred rate tier company writing homeowners business at 13% discount from standard rates. SPCIC is the ultra-preferred rate tier company writing high-valued homeowners policies over \$800,000 in insured value.

The Company maintains an A.M. Best group financial strength rating of A (Excellent) with a stable outlook. The following financial information is as of, or for the year ended December 31, 2013:

Safety Insurance Company:

Admitted assets	\$1,396.8 million
Statutory surplus	\$628.0 million
Direct written premium	\$591.2 million
Massachusetts business - direct written premium	\$580.9 million

Safety Indemnity Insurance Company:

Admitted assets	\$110.1 million
Statutory surplus	\$54.1 million
Direct written premium	\$126.0 million
Massachusetts business - direct written premium	\$122.8 million

Safety Property Casualty Insurance Company:

Admitted assets	\$41.1 million
Statutory surplus	\$17.5 million
Direct written premium	\$14.5 million
Massachusetts business - direct written premium	\$14.2 million

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

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

Objective: This Standard addresses the audit function and its responsibilities. See Standard VI-18 for underwriting and rating audits. See Appendix A for applicable statutes, regulations and bulletins.

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

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

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

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

- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.
- The Company is subject to periodic premium and loss data audits by Commonwealth Automobile Reinsurers ("CAR") for compliance with statutes and CAR Rules of Operation. CAR is the industry-operated residual market and statistical agent for automobile insurance in Massachusetts. Participation in CAR is mandatory for all insurers writing automobile insurance in Massachusetts.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for corporate governance, internal audit, enterprise risk management, compliance risk assessment and quality assurance audit processes. RNA reviewed minutes of Board of Directors meetings, internal audit plans, claim QA review summaries and CAR audits.

Transaction Testing Results:

Findings: None.

Observations: The Company has documented its corporate decisions in its Board of Director minutes. Also, the Company appears to have adopted policies and procedures to ensure that appropriate audits or reviews are conducted timely. Audit findings appear to be monitored, and follow-up audits are completed to ensure that findings are properly remediated.

Recommendations: None.

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

No work performed. All required activity for this Standard is included in the scope of the Division's financial examination of the Company.

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

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

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

- The Company's antifraud efforts are summarized in their antifraud plan, which requires management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud, and to report potential fraud to the Insurance Fraud Bureau

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

("IFB"). Many of these activities are conducted through the Company's Special Investigative Unit ("SIU").

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. All required activity for this Standard is included in the scope of the Division's financial examination of the Company.

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

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. Further, RNA reviewed such documentation, as applicable, in connection with producer compliance, new and renewal business, and claims testing.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties that perform Company functions. RNA also reviewed producer documentation that supports the new or renewal business sold. Finally, RNA reviewed claims that involved the use of independent contractors to complete claims duties.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard is concerned with the Company's cooperation during the course of the examination. See Appendix A for applicable statutes, regulations and bulletins.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

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

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, reviewed documentation supporting privacy policies and procedures, and examined whether the privacy notice provided sufficient information and disclosures. RNA selected 35 private passenger automobile and 35 homeowners policies issued and renewed during the examination period, to test whether a consumer privacy notice was provided.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures including those for the use of opt out notices.

Transaction Testing Results:

Findings: None.

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

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

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

and claims.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has developed and implemented information technology security policies and practices to safeguard nonpublic personal and health information. The Company periodically conducts internal audits of its information technology systems access and security.
- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public personal financial and health information is located. Access is frequently and strictly monitored.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

- The Company's policy administration and claims systems compile and retain homeowners underwriting and claims data for inclusion in the annual homeowners data submission to the Division.
- The Company's policy administration and claims systems compile and retain underwriting and claims data for inclusion in the MCAS.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and claims processing. RNA reviewed the statutorily-required 2013 homeowners underwriting and claims data submitted to the Division, the examination data, and 2013 MCAS data submitted to the NAIC, for any unusual results and concerns.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's statutorily-required 2013 homeowners underwriting and claims data submitted to the Division, the examination data, and 2013 MCAS data submitted to the NAIC, the initial private passenger automobile cancellation data and the personal lines non-renewal data was not accurate or complete. As a result, the Company provided revised examination data and filed revised MCAS filings with the NAIC and statutorily-required data with the Division. The remaining examination data and MCAS data provided by the Company appeared to be accurate and complete.

Recommendations: The Company should enhance its controls and procedures to ensure that underwriting cancellation and non-renewal data reported in MCAS and filed with the Division is accurate and complete. Also, the Company should complete an independent review of MCAS filings prior to filing with the NAIC and of statutorily-required data with the Division, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration, underwriting and claims systems.

Subsequent Company Actions: The Company is enhancing its procedure and control environment to ensure the complete and accurate reporting of all data elements within the annual MCAS filing.

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

II. COMPLAINT HANDLING

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

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

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

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

- The Company defines a complaint contained within the Company's complaint register as any written correspondence expressing a grievance. Concerns expressed by phone received in operational areas are handled by those units.
- All regulatory complaints, including those from the Division, are received by the Litigation Assistant, who completes a "Complaint Form," assigns the complaint a number and response due date, and refers the complaint to the appropriate operational area manager to draft a response. The Litigation Assistant logs the complaint in an Access database and maintains the original complaint in a pending folder until the complaint response is due. Operational area managers are to respond to the complaint in writing within the required timeframe as set by the Division by mailing the original response and one copy to the Division, and e-mailing a copy to the Litigation Assistant.
- The operational area manager also fills out a "Complaint Analysis Report" form to document the complaint resolution, and the form is attached to the copy of the response that is emailed to the Litigation Assistant. The Complaint Analysis Report and complaint response are provided to the President, Director, Vice-Presidents, Audit Services Director, and the Legal & Regulatory Compliance Director. The Litigation Assistant enters the complaint response date and the complaint type in the Access database, and files the original Complaint Form, the complaint, Complaint Analysis Report, complaint response and any supporting documents.
- The Company's complaint register includes 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 days to process each complaint.
- The Company uses social media primarily as a means to promote brand awareness. Nevertheless, the Company monitors social media sites and refers any specific claims-related complaints to the claims department using the Complaint Form and follows the same process as used for regulatory complaints. All other social media complaints are tracked in the Access database. Operational managers are expected to respond to social media complaints within 24 hours.
- The Company provides a telephone number and address in its written responses to complaints, inquiries and on its web-site.
- The Company reviews all complaint activity for identification of any recurring, systemic or potential problems. Management reporting of complaint activity is provided monthly to all Directors and Vice-Presidents.

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 27 regulatory and Company complaints, including three social media complaints from 2013-2014, to evaluate the Company's compliance with statutory complaint requirements. RNA reviewed the complaint handling for these complaints, including the adequacy of documentation supporting the facts and resolution of the complaints. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 27 regulatory and Company complaints, including three social media complaints from 2013-2014, to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 27 regulatory and Company complaints, including three social media complaints from 2013-2014, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

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

Observations: The Company addressed the tested regulatory complaints within 14 days, or with additional time as allowed by the Division. The Company also addressed the Company and social media complaints within 14 days. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

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

III. MARKETING AND SALES

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

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for reviewing, approving and maintaining sales and advertising materials, and obtained supporting documentation. RNA selected five Company and three co-op advertising and sales materials utilized during the examination period and reviewed them for accuracy and reasonableness. Further, RNA reviewed the Company's website for disclosure of its name and address. Finally, RNA reviewed any sales and marketing materials noted as part of new and renewal business testing for any evidence of use of unapproved sales and marketing materials.

Transaction Testing Results:

Findings: None.

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

Observations: RNA noted that the tested materials appeared accurate and reasonable, and the Company's website disclosure complies with Division requirements. Approval of marketing materials is obtained orally. RNA noted no evidence of the use of unapproved sales materials as part of new and renewal business testing.

Recommendations: The Company should document approval of marketing materials in writing, by email or through approval documentation in the marketing materials log.

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing producer training materials to understand the nature and breadth of the Company's producer training. RNA reviewed agent communications as part of new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company's producer training process and producer communications appear adequate and reasonable. RNA noted no evidence of unreasonable producer communications as part of new and renewal business testing.

Recommendations: None.

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

Standard III-3. Regulated entity 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 Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-2.

Controls Reliance: See Standard III-2.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard is concerned with whether marketing to groups by the Company and its producers is in accordance with Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-1.

Controls Reliance: See Standard III-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing group marketing communications to understand the nature and breadth of such communications. RNA reviewed any group marketing communications noted in new and renewal business testing for reasonableness.

Transaction Testing Results:

Findings: None.

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

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

Recommendations: None.

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

IV. PRODUCER LICENSING

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

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

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

Controls Assessment: The following controls were noted in review of this Standard and Standards IV-2 and IV-4:

- The Company's sales distribution in Massachusetts is through independent producers and agents.
- Company policy is to verify that all producers are licensed in Massachusetts prior to contracting with them.
- Standard independent agent contracts contain terms and conditions that address general authorities, duties, premium accounting, commission rates, premium submission, profit sharing, termination provisions, marketing material requirements, privacy and general business procedures. The agents also have binding authority. Additionally, the Company requires independent agents to maintain an E&O insurance policy.
- Standard producer contracts with limited authorities contain terms and conditions that address those authorities, duties, premium accounting, commission rates, premium submission, termination provisions, marketing material requirements, privacy, general business procedures and indemnification. The producers have limited binding authority.
- The Company's agents and producers are solely responsible for maintaining their producer licensing and continuing education requirements.
- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.
- The Company's policy is to use the Division's On-Line Producer Appointment System ("OPRA") system to process agent appointments. That information is to be periodically compared to OPRA data, with record corrections made as necessary.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of agent appointments. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to determine whether the independent agents involved in these sales were included on the Division's list of the Company's appointed agents, or any producers involved in the sales were properly licensed.

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

Transaction Testing Results:

Findings: For one homeowners policy and one private passenger automobile policy tested, the producers, who were party to agency contracts with the Company, were not appointed as agents in the Division's OPRA system prior to, or concurrent with the sale, in accordance with M.G.L. c. 175, § 162S.

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

Required Actions: The Company shall enhance its controls and procedures over agent appointments, provide guidance to staff on the new controls and procedures, and conduct independent monitoring by June 30, 2015, or another agreed upon date, to ensure that the new controls and procedures have been effectively implemented. The results of the independent monitoring shall be reported to the Division.

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

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

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

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. RNA reviewed the standard independent agent and the standard producer contracts for responsibility related to continuing education compliance.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

Transaction Testing Results:

Findings: One agent appointment termination was not made with the Division through OPRA timely (within 30 days following the effective date of the termination) in violation of M.G.L. c. 175, § 162T.

Observations: Two agent appointments were terminated in OPRA, but the effective dates of the terminations were 9 months and 50 days, respectively, earlier than the effective dates of the terminations by contract. For the remaining agent appointment termination, the Company properly notified the Division of the appointment termination through the OPRA system in compliance with statutory requirements. For each of the tested appointment terminations, the Company was able to provide evidence of timely notice to the agents in compliance with statutory requirements, as appropriate.

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

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

Subsequent Company Actions: The Company is adopting new controls and procedures to address these required actions. Management has changed its procedures to use the termination effective date in the agent's termination later to report the termination in OPRA.

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. In conjunction with testing of 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, and testing of four business entity agent appointment terminations, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's agent appointment and termination policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

V. POLICYHOLDER SERVICE

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

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

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

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

- The Company's billing and payment methods include payment in full at inception or direct bill in installments. Payments are accepted using a check, credit card, debit card, automated clearing house, or electronic funds transfer ("EFT"), by mobile application and by phone. Homeowner policies may also be mortgagee-billed. For new business, a down payment of 20% to 25% is generally required, depending on policy type, payment plan selected and the consumer's payment history.
- For private passenger automobile payments, the maximum number of installments is nine. Homeowners payments must be made in either five or 10 installments. For those selecting combined private passenger automobile and homeowners billing, the number of installments is 10, for premium processed within the first 180 days of coverage, and five for premium processed within the second 180 days of coverage.
- For billed installments, the initial bill is sent approximately 20 days prior to the due date. If a private passenger automobile premium payment is not made, a notice of cancellation is sent approximately 30 days after the billing notice was sent. If a homeowners premium payment is not made, a notice of cancellation is sent approximately 23 days after the billing notice was sent. The insured has a final 23 days to make the minimum payment or the policy is cancelled. Initial renewal billings are sent 29-37 days prior to the private passenger automobile renewal effective date, and 20 days prior to the homeowners renewal effective date.
- If an EFT payment transaction results in an insufficient funds transaction, the insured must make the payment using an official check or money order and then may continue with the EFT program. If a second insufficient funds transaction occurs, the insured can no longer participate in the EFT program.
- If a private passenger auto policy customer has incurred a cancellation for non-payment of premium within the preceding 24 months, then he or she will be required to pay a new policy premium in full.
- Premium financing can be obtained from an unaffiliated premium finance agency. If an insured is delinquent in paying the premium finance agency, the premium finance agency will send a notice to the policyholder of its intent to exercise its power of attorney to initiate cancellation of the policy. If after 10 days the payment is not received, the premium finance agency will exercise its power of attorney and will send a notice of cancellation to the insured 23 days in advance of the cancellation effective date. The premium finance agency will also notify the Company of the intended cancellation, seeking a return of any applicable unearned premium if the cancellation becomes effective. The premium finance agency may rescind its notice of cancellation on or before the cancellation effective date.

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

- The Company has developed standards for billing and collections, and monitors compliance with those standards.
- Reinstatements for policies cancelled for non-payment may be approved within 11 days of cancellation with the involvement of the producer, the underwriting department, and receipt of a no loss affidavit.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and reviewed billing notice dates in conjunction with new and renewal business testing. RNA tested nine cancellations for non-payment of premium for adequate notice and proper processing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, billing notices appeared to be mailed with an adequate amount of advance notice. Cancellations for non-payment appear to be properly issued and processed.

Recommendations: None.

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

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

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

- Company policy is to process insured-requested policy cancellations and applicable premium refunds in a timely manner. Policy cancellation requests from customers must be made through the producers, who are generally able to process the requests electronically, or who will forward the request to the Company.
- All unearned premium is refunded to the policyholder on a short rate or a pro-rata basis.
- Automobile policyholders may cancel their policies only after filing a Form 2A-Notice of Transfer of Coverage, proof that the vehicle has been taken out of service, or evidence that they have moved out of Massachusetts.

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for policyholder service and tested 10 private passenger automobile and 11 homeowner insured-requested cancellations from the examination period, to ensure that the cancellation requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company considers its agents and producers as having the primary relationship with policyholders, who must request endorsements and policy changes through them. If a policyholder requests such changes directly with the Company, the policyholder will be referred to the agent or producer for servicing.
- The Company's call center representatives may make billing address changes or premium billing changes. The Company's 10-person call center handles such requests. The call center also takes calls from agents. Metrics such as speed to answer, abandoned calls, average wait time and others are measured against key performance indicators. Quality assurance call monitoring is also performed as needed.
- The Company has underwriting representatives who may assist producers with policyholders' general questions about their policies.
- The Company has developed performance and work flow standards for underwriting and policyholder service and monitors compliance with those standards.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and obtained documentation of underwriting service standards. RNA reviewed call center statistical reports for two months to assess results. Also, RNA reviewed customer correspondence in conjunction with new and renewal business and claims testing.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

- The Company has established a dedicated post office box for undeliverable private passenger automobile and combined billed statements and notices. The returned mail post office box is managed daily by the Company's vendor, which reports the undeliverable items to the Company. Undeliverable homeowner policy billing and cancellation notices as well as all premium refund checks are returned to the Company by the U.S. Postal Service.
- The Company addresses returned mail such as policies, required notices, premium refunds and billing notices by sending the item to the producer, and asking the producer to locate the customer.

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

- If a better address is found, for returned premium refund checks, the check is resent using the new address. For any outstanding claim checks, the Company's forwards the claim check to the claims adjuster to locate the claimant. All outstanding claims checks remain on the Company's outstanding check list.
- At 90 days prior to escheatment, a final letter is sent to the payee at the best available address notifying him or her that the check is still outstanding. Once these efforts are exhausted and after three years, the funds are deemed abandoned property and escheated in accordance with Massachusetts Law.
- The Company annually reports escheatable funds to the Massachusetts State Treasurer by November 1st as required by statute.

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

Transaction Testing Procedure: RNA discussed the Company's procedures for locating missing policyholders and claimants and escheating funds. RNA also reviewed supporting documentation. RNA compared the Company's policies and procedures to the Division's best practices in these areas. Finally, RNA reviewed the 2012 and 2013 escheatment filings with the Massachusetts State Treasurer.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- The Company's claims personnel, agents, and producers have access to policyholders' claims history and paid loss information.

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

- The Company's policy is have the agent or producer provide the policyholder with his or her claims history and paid loss information when requested.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

VI. UNDERWRITING AND RATING

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

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company has provided producers with personal lines underwriting requirements for use in evaluating risks. Producers have binding authority.
- To obtain personal lines insurance quotes, the producers may use either the Company's agent portal or a third party comparative rating service. Any policy issued electronically must be processed through the agent portal.
- Agents electronically submit application information with the signed applications retained in the agents' files. The standard forms for the applications are approved by the Division.
- The Company uses automated underwriting guidelines to accept or reject private passenger automobile and homeowners risks.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements.
- The Company's eight underwriting staff and one manager are responsible for voluntary market automobile underwriting, and four staff underwriters and one manager are responsible for assigned risk business. Appropriate authority limits are assigned to each underwriter, and underwriting staff review submitted applications.
- Personal lines rates are filed with the Division and approved prior to use. All approved rates are loaded in the Company's underwriting and policy administration systems and are tested prior to use.
- Private passenger automobile underwriting criteria include license status, driving history, and driver experience, among other factors. The Company does not use credit or insurance scores in private passenger automobile underwriting or rating.
- The Company adheres to Massachusetts regulatory standards of fault in determining at-fault accidents and ensures that at-fault drivers are appropriately surcharged for such accidents. Surcharged drivers are notified of the right to appeal the surcharge. The Company does not report the at-fault indicator to consumer reporting agencies. The Company identifies vacated surcharges and completes processing for those transactions.
- Private passenger automobile rates are based on Automobile Insurers Bureau of Massachusetts ("AIB") base rates with deviations using actuarial guidelines and principles.

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

- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.
- The Company is subject to periodic premium data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company has 24 underwriting staff in the homeowners underwriting department organized in nine servicing teams. Appropriate authority limits are assigned to each underwriter. For new business, underwriting company placement is reviewed by the underwriters, and loss history is verified. Property inspections are generally completed for all for new business and periodically on renewal business.
- Homeowners underwriting and rating criteria include territory, coverage amount and type, property age, protection class, structure type as well as discounts for security and safety features, electronic processing, loss-free policies, and higher deductibles. The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting.
- Homeowners rates are based on Massachusetts ISO data and the Company's competitive analysis of market rates.
- The Company's underwriting management completes periodic reviews of new homeowners business submitted for compliance with regulatory requirements and Company policies. All underwriters are covered in these periodic reviews, which are used for underwriter training and performance evaluations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting and rating processes. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test rate classifications and underlying policy information. From these test selections, RNA selected 17 private passenger automobile and 18 homeowners policies and verified that each policy's premium and discounts complied with statutory and regulatory requirements, and that premium charges were accurate. RNA also selected 20 motorcycle policies and one motor home policy to test rates charged and valuations used for comprehensive and collision coverages.

RNA tested 25 vacated at-fault accident determinations by the Board of Appeal from the examination period for accurate and timely reversal of the vacated at-fault accident determinations. Additionally, during private passenger automobile claims testing, RNA assessed whether at-fault accidents were properly reported to the Merit Rating Board with appeal notices timely provided to operators in accordance with statutory and regulatory requirements. Finally, RNA conducted testing of 25 policies to determine whether the Company properly reflected mid-term driver experience classification changes, in accordance with its Division rate filings.

Transaction Testing Results:

Findings: RNA testing indicated that the premium for one homeowners policy was overcharged in violation of M.G.L. c. 174A, §§ 5 and 9. At the request of the Division, the Company reviewed similar homeowners policies for the period 2012-2014 and determined that 107 homeowners policies were affected by this rating error.

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

Observations: Based upon testing, except as noted above, the Company appears to calculate policy premiums and discounts in compliance with its policies, procedures, and statutory requirements, and in compliance with rates filed with the Division. RNA testing of motorcycle premiums determined that original cost new and appropriate depreciation factors were applied to policy premiums. Testing also noted that at-fault accident determinations were timely reported to the Merit Rating Board; appeal notices were properly provided to at-fault operators, and vacated surcharges were properly processed in accordance with statutory and regulatory requirements. Finally, the Company properly reflected mid-term driver experience classification changes in its premium calculations, in accordance with its Division rate filings.

Required Actions: The Company shall provide premium refunds and 6% annual interest to consumers for any homeowners premiums overcharged, with a summary of the refunds and interest reported to the Division. The Company shall adopt new controls and procedures to ensure that premium rates for homeowners policies are applied in accordance with the Company's rate filings. Additionally, the Company shall provide training or guidance to staff about these new controls and procedures. Finally, the Company shall complete an independent assessment of the effectiveness of the new controls and procedures by June 30, 2015, or another agreed upon date, and report the results of the assessment to the Division.

Subsequent Company Actions: The Company is providing homeowners premium refunds and 6% annual interest and addressing the items in the required actions.

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test for timely disclosure of rates and coverages.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer licensing, agent appointment and producer compensation. In connection with the review of producer contracts, RNA inspected new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or improper inducements. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period for indications of rebating, commission cutting or improper inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

- Company policy requires the use of the standard Massachusetts automobile policy forms and endorsements. The Company uses the AIB Massachusetts Private Passenger Automobile Form, which has been approved by the Division.
- Company policy requires the use of standard homeowners policy forms, many based on ISO forms. Homeowners policy forms and endorsements are filed with, and approved by, the Division prior to use.
- Approved forms and endorsements are required to be used when providing quotes to customers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test for the use of approved policy forms and endorsements in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating.
- The Company's underwriting and policy administration systems are used for quoting, rating and underwriting policy applications.
- Pre-insurance inspections are required for new coverage of used private passenger automobiles unless a qualified exemption is met or a waiver is obtained.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to test whether new and renewal policies and endorsements were issued timely, accurately and completely. RNA also tested for compliance with vehicle inspection requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company issues new and renewal policies and endorsements timely, accurately and completely. Also, private passenger automobile policies were issued in compliance with vehicle inspection requirements.

Recommendations: None.

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

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

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements. Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a consistent and fair basis.

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

- Applications for private passenger and homeowners coverage may be declined by the producer on the Company's behalf or by the underwriting department if the risks do not meet the Company's underwriting guidelines.
- Producers are to provide a written declination notice to the private passenger automobile applicant noting the reason that the application is rejected, with a copy of the declination notice retained by the producer for five years.
- The Company uses a minimum insurance score, which is based on credit, in homeowners new business underwriting. Any applicant declined coverage or refused a quote for an unacceptable insurance score is to be provided a Fair Credit Reporting Act ("FCRA") adverse action notice by the producer. The FCRA adverse action notice is to be retained by the producer for five years.
- Other than of the FCRA adverse action notice, producers may provide either a written or oral declination notice to the homeowners applicant for other declination reasons.
- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA requested a listing of homeowners applications declined or instances where the producers could not provide a quote based on the applicants' credit-based insurance scores. RNA tested 20 such declinations or refusals to quote, to determine whether the actions were reasonable in accordance with underwriting guidelines, and whether FCRA adverse action notices were provided to the applicants.

Transaction Testing Results:

Findings: RNA noted that the Company and its producers were not able to provide written declination notices for the 20 selections tested. Further, 10 of the 20 selections were declinations or refusals to quote homeowners business based on credit-based insurance scores, such that a FCRA adverse action notice should have been provided by the producers to the applicants, with notice copies retained by the producers for five years.

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

Required Actions: The Company shall provide notice to all producers reminding them of their responsibility to provide FCRA adverse action notices as required by Federal Law, when the credit-based insurance score requirement is not met, and to retain all such notices for five years, subject to audits by the Company. Also, the Company shall require producers to provide information to the Company about applications declined, or refused quoting, by the producers on the Company's behalf, due to inadequate insurance score. Further, the Company shall conduct periodic agency audit procedures from that information to ensure that the FCRA adverse action notices have been properly and timely provided to applicants.

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

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

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

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

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

- Company-initiated cancellations of automobile policies for underwriting reasons are a result of driver license suspension or material misrepresentation, with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the policyholder, producer and loss payee at least 23 days prior to the cancellation effective date.
- Company-initiated cancellations of homeowners policies for underwriting reasons are generally a result of changes in the risk, failure to address inspection deficiencies, or material misrepresentation, with most occurring within the first 60 days of coverage. Written notice of cancellation with the specific reason for the cancellation is sent to the producers at least 23 days prior to the cancellation effective date. The producers deliver the notices to the policyholders and mortgagees. All cancellation notices are reviewed by Company management prior to delivery to the producers.
- Written non-renewal notices for unacceptable renewals of automobile policies are provided to policyholders, producers and loss payees at least 45 days prior to the non-renewal effective date. The notices state the specific reasons for the non-renewals.
- Written non-renewal notices for unacceptable renewals of homeowners policies are provided to producers at 45-60 days prior to policy expiration, with the specific reasons stated on the notices. The producers must provide the notices to the policyholders and mortgagees within 15 days, if the policies are not replaced by the producers. All homeowners non-renewal notices are reviewed by Company management prior to delivery to the producers.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA tested 25 private passenger automobile, four commercial automobile, and 25 homeowners company-initiated cancellations for testing. In addition, RNA selected 25 private passenger automobile, one commercial automobile, and 24 homeowners non-renewals for testing. All transactions were evaluated for compliance with statutory and Company policy requirements.

Transaction Testing Results:

Findings: One homeowners company-initiated cancellation notice was not provided to the policyholder in accordance with M.G.L. c. 175, § 99.

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

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

Required Actions: The Company shall ensure that all company-initiated cancellations are issued with adequate time notice and contain reasons that are adequately specific, by reviewing current controls and procedures, making any required changes, and providing appropriate training or guidance to staff.

Subsequent Company Actions: The Company is adopting enhanced systems, procedures and controls to address the required actions.

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

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

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

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

Standard VI-14. Verification of experience modification factors.

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

Standard VI-15. Verification of loss reporting.

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

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

No work performed. This Standard is not covered in the scope of examination as the examination was

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

primarily focused on personal lines business.

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

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

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

- Company policy and practice prohibits unfair discrimination in underwriting and rating in accordance with statutory requirements.
- Written Company policies and procedures are designed to reasonably assure consistency in the application of underwriting guidelines, rating classifications, premium discounts and surcharges determined at or near the inception of coverage.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Private passenger automobile underwriting staff review submitted private passenger automobile applications for underwriting compliance.
- The Company's underwriting manager completes periodic reviews of new homeowners business submitted for compliance with regulatory requirements and Company policies. All underwriters are covered in these periodic reviews, which are used for underwriter training and performance evaluations.
- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period to test whether underwriting, rating and classification are based on adequate information developed at or near inception of coverage. RNA also sought evidence of complaints to ensure that underwriting is completed at or near inception of the coverage.

Transaction Testing Results:

Findings: None.

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

Recommendation: None.

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

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

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

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

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

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

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

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

- The Company has written underwriting and rating policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's customer service representatives and producers are responsible for obtaining the VIN and vehicle symbol when the applications are completed.
- The Company's underwriting system compares the VIN and vehicle symbol to electronic databases to ensure that both are accurate.
- Private passenger automobile underwriting staff review submitted private passenger automobile applications for underwriting compliance.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 35 private passenger automobile policies issued or renewed during the examination period, to determine whether the Company verifies the VIN and vehicle symbol at policy issuance.

Transaction Testing Results:

Findings: None.

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

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

Recommendations: None.

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

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

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

- Company policy requires that the underwriting department apply consistent underwriting practices, and that no underwriter or producer shall engage in collusive or anti-competitive practices.
- Company policy and practice prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written Company underwriting guidelines are designed to reasonably assure appropriate acceptance and rejection of risks on a proper, consistent and fair basis.
- Private passenger automobile underwriting staff review submitted private passenger automobile applications for underwriting compliance.
- The Company's underwriting manager completes periodic reviews of new homeowners business submitted for compliance with regulatory requirements and Company policies. All underwriters are covered in these periodic reviews, which are used for underwriter training and performance evaluations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period to determine whether any underwriting practices appeared collusive or anti-competitive.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

- The Company has written underwriting and rating policies and procedures designed to reasonably assure consistency in classification and rating for mass marketing plans offered to employer and affinity groups.
- The Company's mass marketing plans offered to employer and affinity groups are filed with the Division for approval.
- Company policy prohibits unfair discrimination in the application of premium discounts and surcharges, and in the application of its general rating methodology, in accordance with statutory and regulatory requirements for mass marketing plans offered to employer and affinity groups.
- Private passenger automobile underwriting staff review submitted private passenger automobile applications for underwriting compliance.
- The Company's underwriting manager completes periodic reviews of new homeowners business submitted for compliance with regulatory requirements and Company policies. All underwriters are covered in these periodic reviews, which are used for underwriter training and performance evaluations.
- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period, to ensure that underwriting practices for mass marketing plans offered to employer or affinity groups were not unfairly discriminatory. During this testing, RNA sought evidence of any unfair discrimination in underwriting these policies and examined evidence of the Division's approval of the affinity premium discounts.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard addresses whether mass marketing policies meet statutory and regulatory requirements. See Standard VI-22 for this testing. See Appendix A for applicable statutes, regulations and bulletins.

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

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

Standard VI-25. All policies are correctly coded.

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

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

- The Company has written underwriting policies and procedures, which are designed to reasonably assure consistency in classification and rating.
- The Company's policies and procedures require that Company personnel confirm that certain coding elements reported by the agents are correct and current.
- The Company has a process to correct data coding errors and to make subsequent changes, as needed.
- The Company has policies and procedures to report complete and accurate premium data timely in the required formats to rating bureaus such as the AIB, CAR and ISO.
- The Company is subject to periodic audits by CAR for compliance with statutes and CAR Rules, including statistical coding requirements related to premiums.
- Private passenger automobile underwriting staff review submitted private passenger automobile applications for underwriting and regulatory compliance.
- The Company's underwriting manager completes periodic reviews of new homeowners business submitted for compliance with regulatory requirements and Company policies. All underwriters are covered in these periodic reviews, which are used for underwriter training and performance evaluations.
- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process and the statistical reporting process. RNA selected 35 private passenger automobile and 35 homeowners policies issued or renewed during the examination period to test data coding for selected policy determinants.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- Company policy requires that the underwriting files support underwriting and rating decisions.
- The Company's producers and agents are responsible for completing and retaining applications for new business and obtaining information needed to properly underwrite and rate the policies.
- Private passenger automobile underwriting staff review submitted private passenger automobile applications for underwriting compliance.
- The Company conducts periodic desk audits of the independent agencies to ensure that the agents are maintaining signed private passenger automobile applications, supporting discount information and private passenger automobile declination notices provided to applicants.
- The Company's underwriting management completes periodic reviews of new homeowners business submitted for compliance with regulatory requirements and Company policies. All underwriters are covered in these periodic reviews, which are used for underwriter training and performance evaluations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for the underwriting process. RNA selected 35 private passenger automobile and 30 homeowners policies issued or renewed during the examination period to test for properly completed new business applications and adequate underwriting documentation. RNA also sought evidence of complaints related to unusual underwriting decisions.

Transaction Testing Results:

Findings: None.

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

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

Recommendations: None.

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

VII. CLAIMS

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

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

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

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

- The Company's claims handling process is organized in two home office divisions with approximately 300 claims personnel. Each division is led by a vice-president with a supervisory structure that includes directors, managers, adjusters and support staff. The two divisions are organized functionally with casualty, SIU, litigation and homeowners contained in one division. The other division handles automobile physical damage, field operations and claims support staff, which includes salvage/subrogation, total loss, and document imaging. The Company also utilizes field adjusters and independent appraisers in Massachusetts to supplement its employee field staff.
- Written policies and procedures govern claims handling processes. Claims are generally reported through the Company's 800 phone number by the claimant or through the producer. A claim number is established, and key information, such as the claimant's name, policyholder information, policy number, accident date, location, and extent of injuries are obtained and recorded in the electronic claims processing system, which includes a claim diary and history notes.
- Claims are investigated to determine existence of coverage, so that an initial liability determination can be made. Field and independent claim adjusters are utilized as needed to provide on-site-inspections and claim investigations. The adjusters are provided written procedures and detailed instructions covering tasks to be performed and timeframes for completion. Claims adjusters are to contact the claimants the same day or the next business day. The Company contracts with vendors for services related to auto glass claims and car rental coverage.
- The Company has adopted a supervisory structure to ensure that settlement authorities and procedures are followed. Individual claim settlement authority limits are assigned commensurate with claims adjusters' experience. Claims adjusters are responsible for verifying coverage, coordinating claim investigations, establishing liability and determining damages.
- The Company does not use purchased claim evaluation software in connection with assessing damages on bodily injury claims. An internally-developed bodily injury evaluation methodology is used to document the damage analyses. The Company has developed "help tables" based on its historical Massachusetts claims experience to help guide the bodily injury reserving and damages settlement evaluation. The Company's policy is to make settlement offers between the low and high settlement estimates. Any exceptions from this policy are to be reviewed with management.
- Unit managers review each active bodily injury claim after the initial 90 days and each subsequent year. For litigated claims, internal or outside counsel may be used as considered

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

necessary. The Company monitors the performance of any law firms and attorneys conducting litigation defense duties.

- Company policy is to comply with claim settlement performance standards established by CAR and those set forth in statute. The Company is subject to audits from CAR for compliance with the standards, which specify time frames for assigning an appraiser, inspecting a vehicle, and paying a claim. The Company follows standard industry and CAR claim handling guidelines in its claim investigations including Massachusetts standards of fault. Information from police reports, witness statements, photographic evidence and consumer reporting agencies are used to evaluate the claim.
- The Company requires that at-fault accident drivers receive notices of their at-fault accident surcharges and their right to appeal these determinations. Surcharges appealed and vacated by the Division's Board of Appeal are to be reversed timely by the Company. The Company does not report at-fault accident determinations to consumer reporting agencies.
- Company policy is to comply with CAR's SIU performance standards. Claim adjusters are provided training regarding SIU red flags and make referrals to SIU as needed. The SIU is responsible for coordinating with the IFB, in cases where fraud is believed to have occurred to assist with criminal investigation and prosecution. Automobile theft claims are to be reported through ISO to the NCIB.
- The Company has implemented OFAC compliance initiatives including searches of the SDN database for any policyholders, claimants, or vendors that might be included in the SDN database.
- Reservation of rights and excess of loss letters are issued when potential coverage issues arise. Department of Revenue checks are performed as required by statute and are documented in the claim files. Also, underwriting risk referrals are made to the underwriting department as necessary.
- Third party property damage claimants are generally not required to sign a liability release unless there is a settlement dispute, general damages awarded or a real property settlement exceeds an established threshold. Releases are routinely required from third party bodily injury claimants.
- Criteria for unit manager periodic reviews of the claim adjusters' work have been established, and such reviews are documented in the claim systems.
- The Company reports all closed automobile bodily injury claims to the AIB Detail Claims Database, and reports required claims to the Merit Rating Board as required in Massachusetts.
- The claim systems produce data for the monthly claims reporting of key service and quality metrics using such as cycle time, claim volume, pending claim counts, average paid losses and loss expenses to monitor claim activity.
- The Company has established a QA program through monthly reviews of closed claim files by claims managers. The QA review includes a sample of claims for each adjuster to assess adherence to Company policies and procedures. The QA results are documented and scored in checklists. Results are reported for each adjuster for use by claims management as part of the employee training and performance evaluation processes. In addition, the RACD conducts periodic QA audits of claims handling processes.
- The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company conducts post-claim payment surveys to first party claimants. The survey results are summarized for management reporting. Any negative comments from respondents are addressed.

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

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA verified the date each selected claim was recorded by the Company, and noted whether the initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA tested each selected claim noting whether the investigations were conducted in a timely manner and whether the investigations were complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA tested each selected claim noting whether the claims were resolved in a timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA tested each selected claim noting whether the Company timely responded to claim correspondence.

Transaction Testing Results:

Findings: None.

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

Observations: RNA noted that for each of the tested claims, the Company timely responded to claim correspondence. Based upon testing, it appears that the Company's processes for timely responding to claims correspondence are functioning in accordance with its policies, procedures and statutory requirements. The Company also addresses negative comments received on written post-claim payment surveys, and the comments are summarized for management reporting.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA reviewed the file for each selected claim, and noted whether its documentation was adequate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA reviewed the file for each selected claim, and noted whether the claim was properly handled in accordance with policy provisions and statutory requirements. Finally, RNA reviewed the Company's 2013 and 2014 complaint logs for complaints that were claim-related and tested 20 claim-related complaints.

Transaction Testing Results:

Findings: Testing indicated that one automobile theft was not timely reported to the NICB in accordance with 211 CMR 75.00.

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

Required Actions: The Company shall adopt enhance control procedures to address the requirements of 211 CMR 75.00. Further, the Company shall provide training or guidance to claims adjusters on proper and timely implementation of these procedures.

Subsequent Company Actions: Company management has reviewed the exception with the handling adjuster and will implement additional management oversight protocols to ensure full compliance with the reporting requirement.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA reviewed the file for each selected claim, and verified that required claim forms were appropriately used.

Transaction Testing Results:

Findings: None.

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

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim reserves were evaluated, established and adjusted in a reasonably timely manner.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open

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

claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA reviewed the file for each selected claim, and noted whether reservation of rights or excess of loss letters were warranted and issued as appropriate.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: The Standard addresses whether the Company accurately and timely issues deductible reimbursements upon subrogation recovery. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA reviewed each selected claim file, and noted whether deductible reimbursement to insureds upon subrogation recoveries were timely and accurate.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that deductible reimbursement to insureds, upon subrogation recoveries, for 11 tested claims was timely, accurate and processed according to the Company's policies and procedures. Based upon testing, it appears that the Company's processes for making deductible reimbursement to insureds upon subrogation recoveries are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

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

- Company policy is to report complete and accurate loss data timely to appropriate rating bureaus.
- The Company reports private passenger automobile loss data to CAR in a format required by CAR. The Company is subject to periodic loss data audits by CAR for compliance with statutes and CAR Rules of Operation.
- The Company also reports loss data to the AIB, which is a rating bureau that represents the Massachusetts insurance industry.
- The Company reports homeowners loss data to ISO in the required format.
- The Company has processes to correct loss data coding errors and to make subsequent changes, as needed.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its loss statistical reporting processes, and obtained documentation supporting such processes. RNA selected private passenger automobile claims including 22 paid claims, 10 denied or closed-without-payment claims, and 13 open claims for testing. Also, RNA selected homeowners claims including 14 paid claims, four denied or closed-without-payment claims, and seven open claims for testing. RNA reviewed each selected claim file and noted whether selected loss data was accurate and complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

SUMMARY

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

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

ACKNOWLEDGEMENT

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

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

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

A handwritten signature in cursive script, reading "Matthew C. Regan III", is written over a horizontal line.

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