

2000 PROPERTY AND CASUALTY TARGET MARKET CONDUCT EXAMINATION

OF

MASSACHUSETTS BAY INSURANCE COMPANY
(ALLMERICA FINANCIAL)

BY

THE FLORIDA DEPARTMENT OF INSURANCE

DATE FILED: 3/5/02

TABLE OF CONTENTS

<u>PART NUMBER</u>	<u>SUBJECT</u>	<u>PAGE NUMBER</u>
I.	INTRODUCTION	1
II.	PRE-EXAM REVIEW OF COMPANY WRITINGS	3
III.	COMPANY OPERATIONS/MANAGEMENT	4
IV.	REVIEW OF POLICIES	
A.	COMMERCIAL AUTOMOBILE	7
B.	COMMERCIAL PACKAGE POLICY	10
V.	AGENTS/MGA REVIEW	13
VI.	CANCELLATIONS/NONRENEWALS REVIEW	14
VII.	CLAIMS REVIEW	15
X.	EXHIBITS	17

I. INTRODUCTION

Massachusetts Bay Insurance Company is a foreign property and casualty insurer licensed to conduct business in the State of Florida during the scope of this examination. The scope period for this examination is January 1996 through December 1998. The examination began October 29, 2000 and ended December 23, 2000. The last property and casualty market conduct examination of this insurer by the Florida Department of Insurance concluded on July 1, 1994.

The 1994 examination included the review of commercial automobile policies, commercial package policies and underwriting files. Violations cited included incorrectly applying deviation credits, use of incorrect increased limit factors, failure to apply premium size discounts, failure to secure signed UM selection/rejection forms, incorrect application of package modification factors, failure to document use of scheduled individual premium modifications (IRPM), failure to complete IRPM worksheets, failure to apply renewal discounts, use of incorrect symbol multipliers for basic group II, failure to provide timely notices of renewal premium, and failure to provide specific reasons for cancellation.

The purpose of this current examination was to verify compliance with Florida Statutes and Rules.

During this examination, records reviewed included commercial automobile and commercial package policies including applications and underwriting files, agent/MGA licensing, cancellations/nonrenewals, and claims for the period of January 1996 through December 1998, as reflected in the report.

This report contains examination results addressing all areas of noncompliance found during the course of the examination. In all instances, the Company was directed to take corrective action as required, issue appropriate refunds, make all necessary filings with

the Department and immediately cease any activity that continues to place the Company in noncompliance with Florida Statutes and Rules.

As a result of the findings in this examination, \$873.00 was returned to Florida consumers due to overcharges of premium.

II. PRE-EXAM REVIEW OF COMPANY WRITINGS

A. CERTIFICATE OF AUTHORITY - AUTHORIZED LINES

1. General Comments

The Certificate of Authority/Renewal Invoices were reviewed for all years within the scope of the examination.

2. Exam Findings

The review included verification of the lines of business the Company was authorized to write during the scope of examination versus those lines actually being written. It also included verification that notification requirements were met for any line of business that was discontinued.

No errors were found.

III. COMPANY OPERATIONS/MANAGEMENT

A. PROFILE

Massachusetts Bay Insurance Company (Company) was incorporated on June 29, 1956, under the laws of Massachusetts. The Company began writing business on April 17, 1957. On December 20, 1994, the Company transferred its domicile from the Commonwealth of Massachusetts to the State of New Hampshire.

Massachusetts Bay Insurance Company is a multi-line insurer authorized to write commercial and personal lines property and casualty business. Commercial automobile and commercial package policies are marketed through independent agents. The Company utilizes company adjusters and independent adjusters contracted from outside adjusting companies.

The home office is located in Worcester, Massachusetts, with branch offices and regional operational offices located throughout the United States. The southern regional office, which is responsible for Florida, is located in Atlanta, Georgia.

B. MANAGEMENT

1. Protection of Computer Information

The Company's network is password protected. A full system backup is performed daily. Backup files are stored in a secure place protected from theft, fire, water and physical damage.

2. Anti-Fraud Plan

In accordance with Section 626.9891, Florida Statutes, the Company filed its anti-fraud plan with the Florida Department of Insurance in 1996, with a revision in 1997. Allmerica Financial Corporation has established the Protect Corporate Asset process unit (PCA). PCA is responsible for all anti-fraud activities for all lines of business. The purpose of PCA is to act as the investigative support function to identify, investigate and resolve suspicious and fraudulent insurance practices.

3. Disaster Recovery Plan

The Massachusetts Bay Insurance Company is covered under the comprehensive disaster recovery procedures in place for all of the affiliated companies of Allmerica Financial Corporation. These detailed and specific recovery procedures cover all company desktops, network, voice systems and mainframe operations critical to the continued operation of the affiliated companies of Allmerica Financial Corporation. In addition, the Company's claims operation has detailed plans in place to ensure that servicing and adjustments of insured losses, as they are reported to the Company by agencies or directly from property and casualty customers, can be handled during a catastrophe, even if a weather related event or other emergency limits access to the office facility. The Company's customer processing centers also utilize business continuity plans to enable each business unit to recover from an interruption that prohibits its ability to perform designated critical processes.

4. Internal Audit Plan

Allmerica Financial Corporation maintains a comprehensive program of internal auditing as an overall control measure and as a service to the Company. The Internal Audit Department has the authority to audit and investigate any activity of the Allmerica Financial Companies. It has full, free and unrestricted access to all records, locations, reports and personnel relevant to subjects under review.

C. OPERATIONS

The Massachusetts Bay Insurance Company actively markets and writes commercial automobile and commercial package policies throughout the State of Florida through independent agents.

IV. REVIEW OF POLICIES

A. COMMERCIAL AUTOMOBILE

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Massachusetts Bay Insurance Company is a member of Insurance Services Office (ISO) and as such ISO is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

Massachusetts Bay Insurance Company is a member of ISO and as such ISO is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

Insurance Services Office acts as the Company's official statistical agent.

2. Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1996	\$1,818,274	236
1997	\$1,871,493	270
1998	\$ 997,463	281

The Direct Premiums Written and in-force policy counts for 1998 represents six months.

3. Exam Findings

One hundred (100) policy files were examined.

Seventy (70) errors were found.

Errors affecting premium resulted in two (2) overcharges totaling \$144.00 and one (1) undercharge totaling \$282.00.

The errors are broken down as follows:

1. One (1) error was due to failure to follow the filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The loss cost multiplier was not applied in the premium computation resulting in a \$282.00 undercharge.

2. One (1) error was due to failure to follow the filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. A rating computation error was made in the liability and PIP premium. This error resulted in an overcharge totaling \$57.00, which has been refunded by the Company.
3. Twenty-six (26) errors were due to failure to document debits and credits. This constitutes a violation of Rule 4-170.004, Florida Administrative Code.
4. Twenty-seven (27) errors were due to failure to provide timely notice of renewal. This constitutes a violation of Section 627.4133, Florida Statutes. This error is also reflected in the 1994 Examination, Page 12. Exhibit I.
5. Fourteen (14) errors were due to failure to maintain signed UM acceptance/rejection forms. This constitutes a violation of Section 627.318, Florida Statutes. This error is also reflected in the 1994 Examination, Page 12. Exhibit I.
6. One (1) error was due to failure to properly apply a credit. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. The subjective individual rating premium modification (IRPM) worksheet for the credit applied was incorrectly completed. An 11% credit was applied on the rating worksheet; however, the IRPM worksheet documents that a 13% credit should be applied. This error resulted in an overcharge totaling \$87.00, which has been refunded by the Company.

B. COMMERCIAL PACKAGE POLICIES

1. Application of Rules, Rates and Forms

a. Rate/Rule Filings

Massachusetts Bay Insurance Company is a member of ISO and as such ISO is authorized to file rules/rates on the Company's behalf in accordance with Section 627.062, Florida Statutes. In addition, the Company does make some independent filings.

b. Form Filings

Massachusetts Bay Insurance Company is a member of ISO and as such ISO is authorized to file forms on the Company's behalf in accordance with Section 627.410, Florida Statutes. In addition, the Company does make some independent filings.

c. Statistical Affiliation

Insurance Services Office acts as the Company's official statistical agent.

2. Premium and Policy Counts

Direct Premiums Written and in-force policy counts for the scope of the examination are as follows:

<u>Year</u>	<u>DPW</u>	<u>Policy Count</u>
1996	\$6,702,510	1,605
1997	\$7,975,110	1,860
1998	\$4,009,207	1,987

3. Exam Findings

One hundred (100) policy files were examined.

Eighty-five (85) errors were found.

Errors affecting premium resulted in two (2) overcharges totaling \$729.00 and two (2) undercharges totaling \$246.00.

The errors are broken down as follows:

1. Two (2) errors were due to failure to follow the filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. Incorrect protection classes were used.
2. Two (2) errors were due to failure to follow the filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. Incorrect territories were used. These errors resulted in undercharges totaling \$16.00.

3. Two (2) errors were due to failure to follow the filed rating plan, rating schedule, or rating rule. This constitutes a violation of Section 627.062, Florida Statutes. The Company used incorrect base rates on the buildings. One (1) error resulted in overcharges totaling \$722.00, which have been refunded by the Company and one (1) error resulted in undercharges totaling \$230.00.
4. Sixty-one (61) errors were due to failure to document debits and credits. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. The Company did not maintain the documentation to support the subjective debits and credits applied to the policy. This error is also reflected in the 1994 Examination, Pages 23 and 29. Exhibit II.
5. Sixteen (16) errors were due to failure to provide timely notice of renewal. This constitutes a violation of Section 627.4133, Florida Statutes. This error is also reflected in the 1994 Examination, Pages 18, 21, 26, and 29. Exhibit III.
6. Two (2) errors were due to failure to properly apply credits. This constitutes a violation of Rule 4-170.004, Florida Administrative Code. Credits were applied on the rating worksheet in amounts which were not supported by the documentation.

V. AGENTS/MGA REVIEW

Twenty (20) applications/policies written during the scope of examination were examined.

Four (4) errors were found.

None of the errors affected policy fees.

The errors are broken down as follows:

1. Three (3) errors were due to use of unappointed agents. This constitutes a violation of Section 626.112, Florida Statutes.
2. One (1) error was due to failure to display the agent's name or license number. This constitutes a violation of Section 627.4085, Florida Statutes.

VI. CANCELLATIONS/NONRENEWALS REVIEW

Fifty (50) cancelled/nonrenewed policies were examined.

Eighteen (18) errors were found.

None of the errors affected premium calculations.

The errors are broken down as follows:

1. Six (6) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. The Company did not maintain copies of the cancellation notices for review.
2. Six (6) errors were due to failure to maintain records. This constitutes a violation of Section 627.318, Florida Statutes. The Company did not maintain copies of the proofs of mailing for review.
3. One (1) error was due to failure to provide a specific reason for nonrenewal. This constitutes a violation of Section 627.4091, Florida Statutes. The Company is required to list out the dates of losses when using "Loss Activity" as a reason for nonrenewal. This error is also reflected in the 1994 Examination, Page 34. Exhibit V.
4. Five (5) errors were due to failure to provide timely notice of nonrenewal. This constitutes a violation of Section 627.4133, Florida Statutes.

VII. CLAIMS REVIEW

Fifty (50) claims were examined.

Fourteen (14) errors were found.

None of the errors affected payments.

The Company's internal claims handling procedures and reserving practices are described in Exhibit VI.

The errors are broken down as follows:

1. One (1) error was due to failure to properly forward the automobile title to the Department of Highway Safety & Motor Vehicles. This constitutes a violation of Section 319.30, Florida Statutes.
2. One (1) error was due to use of an unappointed adjuster. This constitutes a violation of Section 626.112, Florida Statutes. Katy Plough (formally Gullo) is not appointed with Massachusetts Bay Insurance Company.
3. Seven (7) errors were due to use of unlicensed and unappointed adjusters. This constitutes a violation of Section 626.112, Florida Statutes. The in-house company adjusters were not licensed in Florida and appointed by the Company.
4. One (1) error was due to failure to disclose information. This constitutes a violation of Section 627.4137, Florida Statutes.
5. One (1) error was due to failure to comply with PIP benefit requirements. This constitutes a violation of Section 627.736, Florida Statutes.

6. Three (3) errors were due to failure to advise insureds of PIP rights/benefits. This constitutes a violation of Section 627.7401, Florida Statutes.

VIII. EXHIBITS

<u>SUBJECT</u>	<u>EXHIBIT NUMBER</u>
COMMERCIAL AUTOMOBILE ERROR VIOLATION #5 AND #6 SAME ERROR FOUND IN PRIOR EXAMINATION, PAGE 12 OF PRIOR EXAMINATION REPORT.	I
COMMERCIAL PACKAGE ERROR VIOLATION #6 SAME ERROR FOUND IN PRIOR EXAMINATION, PAGE 23 OF PRIOR EXAMINATION REPORT.	II
COMMERCIAL PACKAGE ERROR VIOLATION #8 SAME ERROR FOUND IN PRIOR EXAMINATION, PAGES 18, 21, 26, AND 29 OF PRIOR EXAMINATION REPORT.	III
COMMERCIAL PACKAGE ERROR VIOLATION #9 SAME ERROR FOUND IN PRIOR EXAMINATION, PAGE 29 OF PRIOR EXAMINATION REPORT.	IV
CANCELLATION ERROR VIOLATION #3 SAME ERROR FOUND IN PRIOR EXAMINATION, PAGE 34 OF PRIOR EXAMINATION REPORT.	V
INTERNAL CLAIMS HANDLING PROCEDURES AND RESERVING PRACTICES	VI