

REPORT ON
THE MARKET CONDUCT EXAMINATION
OF
AMICA MUTUAL INSURANCE COMPANY

as of

December 31, 2000

State of Rhode Island
Department of Business Regulation
Insurance Division

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
INSURANCE DIVISION**

The attached Report of Examination as of December 31, 2000, of the market conduct condition and affairs of:

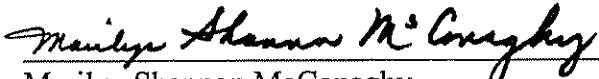
Amica Mutual Insurance Company

was recently completed by duly qualified examiners, pursuant to the provision of the Rhode Island Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operations of the above-mentioned companies and their market conduct condition as reflected from the examination report.

It is therefore ORDERED that said Report be, and it is hereby adopted and filed and made an official record of this department as of this date.

DEPARTMENT OF BUSINESS REGULATION


Marilyn Shannon McConaghy *11/20/02*
Director/Insurance Commissioner

ORDER NO. 02-101

DATED: 11/22/02

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Providence, Rhode Island

October 28, 2002

Honorable Marilyn Shannon McConaghy
Insurance Commissioner
State of Rhode Island

Dear Commissioner:

In accordance with your instructions and pursuant to the statutes of the State of Rhode Island, a Market Conduct Examination was conducted of the:

Amica Mutual Insurance Company
One Hundred Amica Way
Lincoln, Rhode Island 02865-1156

hereinafter referred to as the “Company.”

The examination was conducted at the administrative office of the Company, which is located at One Hundred Amica Way, Lincoln, Rhode Island.

FOREWORD

Our Market Conduct Examination Report is, in general, a report by exception. Information relating to practices, procedures, and/or files subject to review during our examination, has been omitted from the report if errors and/or improprieties were not evidenced.

SCOPE OF EXAMINATION

Authority for this examination is provided by R. I. Gen. Laws §27-13 and §27-13.1. The examination covered the period from January 1, 1999, through December 31, 2000 and was conducted in accordance with standards established by the National Association of Insurance Commissioners, as well as, procedures developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination encompassed the review of the following areas: Certificate of Authority, Consumer or Other Related Complaints, Underwriting and Rating, Claim Practices, Cancellation Practices and Nonrenewal Practices. The lines of business examined were homeowners and private passenger automobile.

The primary purpose of the examination was to evaluate the Company's compliance with Rhode Island Insurance Laws and Insurance Regulations, and to determine whether Rhode Island insureds and claimants were being treated equitably. The test work performed during the examination satisfied this purpose, and forms the basis for the findings and recommendations presented in this report. The examination consisted of verification and evaluation on a test basis of information contained in the insurer's files, as well as consumer complaints and other pertinent documents maintained by the Rhode Island Insurance Division.

PROFILE OF COMPANY

History

The Company represents the consolidation of the former Automobile Mutual Insurance Company of America and the Factory Mutual Liability Insurance Company of America, both of Providence, Rhode Island. Under the laws of Rhode Island, the two carriers were consolidated as the Amica Mutual Insurance Company, effective December 31, 1972.

Operations

The Company's Rhode Island direct written premiums for the year 2000 were as follows:

<u>Line of Business</u>	<u>Direct Written Premium (2000)</u>
Private Passenger Automobile	53,354,094
Homeowners	13,813,597
Commercial Lines	327,355
Other Lines	<u>2,494,359</u>
Total	<u>69,989,405</u>

Management

The management of Amica Mutual Insurance Company is under the direction of experienced insurance executives, the majority of whom have spent the greater part of their business careers with the Company.

At December 31, 2000, the members of the Company's Board of Directors were as follows: Henry Sewall Woodbridge, Jr., Lowell Cyrus Smith, Robert Roper Faulkner, Peter Baldwin Freeman, Patricia Walsh Chadwick, Jeffrey Paul Aiken, Thomas Alfred Taylor, Ronald Keith Machtley, Barry George Hittner, and Cheryl Watkins-Snead.

CERTIFICATE OF AUTHORITY

The Company's Rhode Island Certificate of Authority was reviewed in order to determine whether, during the period under examination, the Company was in compliance with R. I. Gen. Laws §27-2-11.

Based on this review, it was determined that the Company was licensed in the State of Rhode Island to write the lines of insurance as described previously in the Operations section of this report, and thus was in compliance with the Certificate of Authority.

CONSUMER OR OTHER RELATED COMPLAINTS

A review of the Company's consumer or other related complaints, for the period under examination, was performed to determine whether actions taken by the Company were in compliance with R. I. Gen. Laws §27-29-3, and any other applicable R. I. Gen. Laws and Insurance Regulations. The review was also conducted to assess the Company's compliance with its formal complaint handling procedures and applicable policy contract provisions to determine whether complaints were processed and resolved in a timely manner, and whether patterns existed in the types of complaints received by the Company.

For the period January 1, 1999 through December 31, 2000, 61 complaints [as defined by R. I. Gen. Laws §27-29-4(13)] were received by the Company. Fifteen of the complaints were processed through the Insurance Division, and the remaining 46 were received directly by the Company. Forty-two of the complaints were related to claims, ten were addressed to the President, six involved questions relating to underwriting and the remaining three complaints involved premium questions.

In addition, a review was performed to ascertain whether all the complaints recorded by the Department of Business Regulation, Insurance Division, were recorded on the

Company's complaint register. All complaints that were processed through the Insurance Division were listed on the Company's complaint register.

During our testing, we noted one file in which the Company assigned a point to a policyholder under the Company's Safe Driver Plan, as listed in the automobile rating manual. This point was assigned due to an at fault accident in which the damage was more than \$500. The Company received a phone call from the policyholder regarding the assignment of the Safe Driver Plan point. The Company advised the insured that the point was warranted in accordance with their automobile rating manual under the Safe Driver Plan. The Company then received a complaint letter from the insured and upon further review, waived the Safe Driver Plan point. By waiving the Safe Driver Plan point, the Company was in violation of R. I. Gen. Laws §27-44-5(f)(3), which states that a misclassification of a risk shall be considered an adjustment without adequate justification.

Recommendation: #1: It is recommended that the Company review their procedures as they relate to the assignment of Safe Driver Plan points in order to ensure compliance with R. I. Gen. Laws §27-44-5(f)(3).

UNDERWRITING AND RATING

Homeowners

A review of the Company's underwriting and rating of homeowner policies was performed on new business written by the Company during the period under examination. This review was conducted to determine whether the new policies were underwritten and rated in accordance with the Company's formal underwriting and rating guidelines and procedures. The review was also performed to assess the Company's compliance with R. I. Gen. Laws: §27-2.3-3, §27-5-1 et seq., §27-6-1 et seq., §27-7-1, §27-9-7 et seq., §27-29-1 et seq., and §27-44-1 et seq.

During the period under examination, the Company issued 2,532 new homeowner policies to Rhode Island residents. From this population, a sample of 118 policy files was selected for underwriting and rating review.

During our testing, we noted two files in which the Company accepted a signed homeowner application from the insured in which the arson question was not answered. The Company, therefore, was not in compliance with R. I. Gen. Laws §27-54-8(a) which requires an applicant for property insurance to disclose whether or not the applicant had been convicted of any degree of arson within ten years of the application date.

Recommendation #2: It is recommended that the Company take appropriate action to ensure that all applications received are complete with respect to the arson question in accordance with R. I. Gen. Laws §27-54-8(a).

During our testing, we noted 11 files that did not contain signed applications. The examiners requested that the Company attempt to locate these applications in order to verify that the arson question was answered as required by R. I. Gen. Laws §27-54-8(a). The Company performed an additional search for these 11 applications and was unable to locate any of the applications. Therefore, the examiners were not able to verify compliance with R. I. Gen. Laws §27-54-8(a).

Recommendation #3: It is recommended that the Company review their record retention and retrieval procedures as they relate to homeowner underwriting and rating, in order to ensure that all applications are available for review when requested.

Private Passenger Automobile

A review of the underwriting and rating of automobile policies was performed on new automobile policies written by the Company during the period under examination. This review was conducted to determine whether the new policies were underwritten and rated in accordance with the Company's formal underwriting and rating guidelines and

procedures. The review was also performed to assess the Company's compliance with the following code sections of the R. I. Gen. Laws: §27-2.3-3(a), §27-7-2.1, §27-7-2.5, §27-8-1, §27-9-1 et seq., §27-10.1-10, §27-29-14, and §27-44-1 et seq. The Company's adherence to the following Rhode Island Insurance Regulations was also assessed: Regulations 3, 10, 25, 53, and 84.

During the period under examination, the Company issued 2,371 private passenger automobile policies to Rhode Island residents. From this number, a sample of 117 policy files was selected for examination.

During our testing, we noted that eight policy files did not contain a completed application for automobile insurance. Therefore, we were unable to verify whether the Company was in compliance with R. I. Gen. Laws: §27-7-2.1 Uninsured Motorists Coverage and §27-7-2.5 Medical Payments Coverage.

Recommendation #4: It is recommended that the Company review its procedures pertaining to automobile underwriting, to ensure that the Company obtain and retain the insured's completed application for automobile insurance.

During our testing, we noted eight files in which a driver training credit was applied in rating the policy. The Company was unable to provide adequate documentation to justify the driver training credit. Therefore, the company was not in compliance with R. I. Gen. Laws: §27-44-5 (f)(2) which states: "No insurer may make any adjustment to the full manual premium developed for any risk without adequate justification for that adjustment."

Recommendation #5: It is recommended that the Company review their procedures pertaining to automobile rating, and implement procedures to ensure that similar errors do not occur in the future. It is also recommended that the Company either delete the driver training credit at policy renewal or obtain proper documentation to justify the credit.

CLAIM PRACTICES

A review of the Company's private passenger automobile claim practices for the period under examination, was conducted to determine whether the Company: complied with the applicable provisions of its private passenger automobile policy, did not misrepresent policyholders' rights, acknowledged pertinent communications regarding claims, made prompt investigation of claims, used licensed claim adjusters, and made fair and equitable settlement of personal claims. In addition, the review was performed to evaluate whether the Company was in compliance with R. I. Gen. Laws §27-7-5, §27-10-3, §27-8-12, §27-8-14, §27-9.1-4, §42-28-47 and Rhode Island Regulations 10 and 73.

Private Passenger Automobile Paid Claims

The population of private passenger automobile paid claims closed with payment for the period under examination was 11,374. A sample of 107 private passenger automobile claims was selected for review, and based on the results of the examination work performed, the following exceptions were noted:

In five of the files tested, the Company did not report salvage declarations to the NICB in accordance with R. I. Gen. Laws §27-8-14. The Company has subsequently filed notice with the NICB.

Recommendation #6: It is recommended that the Company report all salvage declarations to the NICB in order to ensure compliance with R. I. Gen. Laws §27-8-14.

CANCELLATIONS AND NONRENEWALS

Homeowners Cancellations and Nonrenewals

A review of the Company's homeowners cancellation and nonrenewal practices was conducted to assess the Company's compliance with R. I. Gen. Laws §27-5-3.4. The review was also conducted to assess the Company's compliance with the cancellation and nonrenewal provisions of the Company's homeowner policy contract.

During the period under examination, 13 nonrenewal notices and four cancellations for underwriting reasons were issued to Rhode Island residents, all of which were selected for testing.

During our testing, we noted 14 cancellation/nonrenewal files in which the Company did not provide the examiner with a return receipt signed by the Insured. Therefore, the examiner was unable to verify whether the Company was in compliance with R. I. Gen. Laws §27-5-3.4, which requires that the Company effect cancellation or nonrenewal by forwarding such notice by certified mail, return receipt requested.

Recommendation #7: It is recommended that the Company send all notices of homeowner cancellation and nonrenewal to the named insured by certified mail with return receipt requested, and maintain the signed return receipt as proof of notice, as required by R. I. Gen. Laws §27-5-3.4.

During our testing, we noted nine cancellation/nonrenewal files in which the Company did not provide the examiner with a return receipt signed by the Mortgagee. Therefore, the examiner was unable to verify whether the Company was in compliance with R. I. Gen. Laws §27-5-3.4, which requires that the Company effect cancellation or nonrenewal by forwarding such notice by certified mail, return receipt requested.

Recommendation #8: It is recommended that the Company send all notices of homeowner cancellation and nonrenewal to the Mortgagee, via certified mail with return receipt requested, and maintain the signed return receipt as proof of notice.

Private Passenger Automobile Nonrenewals

A review of the Company's private passenger automobile nonrenewal practices for the period under examination was conducted to determine whether the Company was in compliance with R. I. Gen. Laws §27-9-4, and §31-47-4 and Insurance Regulation R27-16-005. The examination was also conducted to determine if the Company was in compliance with the cancellation and nonrenewal provisions of its private passenger automobile policy contract.

The population of private passenger automobile nonrenewals processed for the period under examination was 85, all of which were selected for testing.

During our testing, we noted four nonrenewals in which the Company did not include a statement that financial security is required to be maintained continuously throughout the registration period, and the Company did not provide evidence that the notice was sent by certificate of mailing. Therefore, the Company was not in compliance with R. I. Gen. Laws §31-47-4. In addition, one of the nonrenewal notices did not include a statement notifying the insured of possible eligibility for insurance through the Rhode Island Insurance Plan. Therefore, the Company was not in compliance with Regulation R27-16-005.

Recommendation #9: It is recommended that the Company's management institute controls to ensure that all nonrenewal files contain a copy of the nonrenewal notice containing a statement on the need to maintain financial responsibility, the notice of the insured's possible eligibility for the Rhode Island Insurance Plan (where applicable), and proof of mailing.

During our testing, we noted three nonrenewals in which the Company did not include a statement that financial security is required to be maintained continuously throughout the registration period. Therefore, the Company was not in compliance with R. I. Gen. Laws §31-47-4.

Recommendation #10: It is recommended that the Company include a statement that financial security is required to be maintained continuously throughout the registration period in all notices of private passenger automobile nonrenewal as required by R. I. Gen. Laws §31-47-4.

During our testing, we noted two files in which the Company was unable to provide the examiner with the certificate of mailing of the nonrenewal notices. Therefore the examiner was unable to verify whether the Company was in compliance with R. I. Gen. Laws §31-47-4.

Recommendation #11: It is recommended that the Company's management review their mailing procedures to ensure that all nonrenewal notices are sent by certificate of mailing and that the Company maintains a copy of all such mailings.

No.	SUMMARY OF RECOMMENDATIONS	Page No.
1	It is recommended that the Company review their procedures as they relate to the assignment of Safe Driver Plan points in order to ensure compliance with their policy and R. I. Gen. Laws §27-44-5(f)(3).	7
2	It is recommended that the Company take appropriate action to ensure that all applications received have the arson question answered in accordance with R. I. Gen. Laws §27-54-8(a).	8
3	It is recommended that the Company review their record retention and retrieval procedures as they relate to homeowner underwriting and rating, in order to ensure that all applications are available for review when requested.	8
4	It is recommended that the Company review its procedures pertaining to automobile underwriting, to ensure that the Company obtain and retain the insured's completed application for automobile insurance.	9
5	It is recommended that the Company review their procedures pertaining to automobile rating, and implement procedures to ensure that similar errors do not occur in the future. It is also recommended that the Company either delete the driver training credit at policy renewal or obtain proper documentation to justify the credit.	9
6	It is recommended that the Company report all salvage declarations to the NICB in order to ensure compliance with R. I. Gen. Laws §27-8-14.	10

- 7 It is recommended that the Company send all notices of homeowner cancellation and nonrenewal to the named insured by certified mail with return receipt requested, and maintain the signed return receipt as proof of notice, as required by R. I. Gen. Laws §27-5-3.4. 11
- 8 It is recommended that the Company send all notices of homeowner cancellation and nonrenewal to the Mortgagee by certified mail with return receipt requested, and maintain the signed return receipt as proof of notice. 12
- 9 It is recommended that the Company's management institute controls to ensure that all nonrenewal files contain a copy of the nonrenewal notice containing a statement on the need to maintain financial responsibility, the notice of the insured's possible eligibility for the Rhode Island Insurance Plan (where applicable), and proof of mailing. 12
- 10 It is recommended that the Company include a statement that financial security is required to be maintained continuously throughout the registration period in all notices of private passenger automobile nonrenewal as required by R. I. Gen. Laws §31-47-4. 13
- 11 It is recommended that the Company's management review their mailing procedures to ensure that all nonrenewal notices are sent by certificate of mailing and that the Company maintains a copy of all such mailings. 13

CONCLUSION

We have applied verification procedures to the data contained in this report using both subjective and statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of any other error or irregularity that could have a material effect on the market conduct condition of the Company as presented in this report.

Rhode Island Insurance Division examiners assisting the undersigned in the conduct of this examination were Robert G. Arrow, FLMI, Senior Market Conduct Examiner, John P. Carr, CPCU, Principal Market Conduct Examiner, and Joseph Seow, Market Conduct Examiner.

Respectfully submitted,

Ronald R. Radtke

Ronald R. Radtke
Senior Market Conduct Examiner
Rhode Island Insurance Division

10/28/02

Date