

ITEM 1

REPORT ON

MARKET CONDUCT EXAMINATION

OF THE

Amica Mutual Insurance Company
10 Weybosset Street, Providence, Rhode Island
NAIC Code #19976

By Representatives of the
Rhode Island Department of Business Regulation
Insurance Division

AS OF
FEBRUARY 29, 1992

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September 15, 1992

Honorable Sheldon Whitehouse
Insurance Commissioner
State of Rhode Island
Providence, Rhode Island

Sir:

In compliance with your instructions and pursuant to the statutes of the State of Rhode Island a Market Conduct Examination has been made of the Rhode Island business of the:

Amica Mutual Insurance Company
10 Weybosset Street
Providence, Rhode Island 02903

hereinafter generally referred to as the Company, and the report of such examination is herein submitted.

Foreword

The Market Conduct Report is, in general, a report by exception. Additional practices, procedures or files subject to review have not been referenced in this report if no errors or improprieties were indicated.

Scope of Examination

The examination was conducted in accordance with Title 27-1-11 of the General Laws of the State of Rhode Island. The examination commenced on March 12, 1992 and covered the period of January 1, 1990 to February 29, 1992.

The examination was performed in accordance with procedures established by the National Association of Insurance Commissioners and accordingly included tests of claims, underwriting, rating, consumer complaints and inquiries, agents licensing, certificate of authority, and sales and advertising.

The primary objective of the examination was to determine the Company's compliance with applicable Statutes and Regulations and to ensure the proper treatment of policyholders and claimants.

Company Overview

History and Profile

Amica Mutual Insurance Company was incorporated under the laws of Rhode Island in 1972 as a result of the consolidation of the Automobile Mutual Company of America, founded in 1907 and the Factory Mutual Liability Insurance Company of America, founded in 1914. Amica Life Insurance Company was incorporated under the

laws of the State of Rhode Island in 1968 and is a wholly owned subsidiary of Amica Mutual Insurance Company.

The Company is a direct writing personal lines mutual insurance company. Its policies are non-assessable and qualify for dividends dependent on earnings. The Company develops new business primarily through referrals and recommendations from existing policyholders.

The Company maintains its home office in Providence, Rhode Island and has thirty eight branch offices located throughout the United States. The branch offices are staffed by employees who have the authority to transact the Company's business, both with respect to claims and underwriting. The Company is licensed in the District of Columbia and all states except Hawaii.

Company Operations and Management

Direct written premiums for the Company in 1991 were \$645,230,252. Rhode Island production was \$61,842,881, which represents 9.6 percent of total Company writings. The following table illustrates the Company's mix of business for Rhode Island. All figures are from the 1991 Annual Statement.

<u>Line of Business</u>	<u>Written Premium</u>
Private Passenger Auto	\$49,419,444
Commercial Auto	1,141,616
Homeowners	9,480,159
Fire	158,824
Extended Coverage	90,341
Earthquake	26,598
Inland Marine	492,848
Ocean Marine	571,570
Other Liability	461,481

Rhode Island Operations

Policyholder service is provided directly by employees authorized to transact business in the Company's Lincoln office, situated in Lincoln Center Office Park, 10 Lincoln Center Boulevard, Lincoln, Rhode Island.

Claims processing is handled in the Lincoln office including the issuance of settlement checks. Claim files are monitored for fair and prompt handling by a staff of Company examiners.

Certificate of Authority

The Company's Certificate of Authority was reviewed for the period covered by our examination. The Company's writings are in conformance with authority granted in their Certificate.

Policyholder Treatment

Consumer Complaints

A review of the Company's procedures for handling consumer complaints was made to determine if any violations of Rhode Island Statutes or Regulations exist.

All complaints are received in the Company's home office located in Providence, RI. Upon receipt they are date stamped and logged on a Company designed register. Complaints are then distributed to the appropriate management personnel for response and disposition. All complaints are retained and filed in the Company's Providence office.

The following table illustrates the types of complaints reviewed:

<u>Type of Complaint</u>	<u>Reason for Complaint</u>	<u>Number</u>
Underwriting	Premium / Rates	5
	Policy Canceled	1
	Endorsements Applied	1
	Declinations	3
Claims	Unsatisfactory Settlement	30
	Delay in Processing	26

Company response times on all claim related consumer complaints were in accordance with guidelines established by Regulation

XXVIII Section 6(c). Response times on all other complaints were also reasonable. Although it was determined that complaints were handled in a fair and equitable manner, the examination review of this area disclosed one instance in which a claim was paid for which there was a question of coverage. A recommendation has been made regarding such in the claims section of this report.

Marketing

Sales and Advertising

The Company is a direct writer and does not use agents or brokers to acquire business nor does it rely on media advertising. The Company's primary method of obtaining business is through referrals from existing policyholders.

When a recommendation is received, contact is made by customer service representatives in order to acquire the necessary underwriting information. The information is then forwarded to an underwriter who will make a decision regarding the acceptance of risk. If approved, the representative will call the applicant with a rate quotation. If the rate is acceptable, the customer service representative can verbally bind coverage. An application is sent to the insured for completion and the policy contract is later generated and mailed to the insured. Included with the contract are pamphlets and brochures containing information about various insurance programs offered

by the Company. Pamphlets and brochures are also distributed through regular mailings to policyholders nationwide.

All pamphlets and brochures with information about the various insurance programs were reviewed. It was noted that one pamphlet contained statements that could be interpreted as guaranteeing payment of policy dividends when no such guarantee exists. It is recommended that the Company review all pamphlets and brochures distributed to policyholders to ensure that all statements regarding policy dividends are not misleading.

Agents Licensing

Company records were reconciled with a list of active agents obtained from the Insurance Division. There are currently seven Amica personnel licensed as agents in the state of Rhode Island.

Underwriting and Rating Practices

Underwriting

The Company's underwriting procedures for all lines of business were reviewed for the period under examination. A random sample of 104 policies was chosen representing a cross section of all business written based on the proportionate share of each line of business to the total population. The purpose of the review was to determine compliance with applicable statutes and regulations and to determine whether the Company is discriminating unfairly in the selection of risks.

The Company has no written underwriting guidelines, therefore the examiners were unable to determine if the Company was adhering to its guidelines. Our review revealed no violations of applicable statutes or regulations and no instances of unfair discrimination in the selection of risks.

Rating

The Company's rating procedures were also reviewed for the period under examination. The Company writes only annual policies using Company rates filed with the Division of Insurance. Fifteen personal automobile policies, fourteen homeowners policies, three ocean marine policies and six personal excess liabilities policies were subjectively chosen for manual re-rating by the examiners. The manual re-rating revealed no rating errors for any policies chosen. As an additional test, information significant to policy rating included on documentation contained in the files chosen in our underwriting sample was traced to the Company database. There were no discrepancies noted between the hard copy files and the database.

Cancellations and Non-renewals

A sample of 70 randomly selected cancellations and non-renewals was reviewed to determine compliance with applicable statutes and regulations and policy provisions.

When an insured requests cancellation, the Company does not require a written statement from the insured. The Company does, however, send a confirmation notice to the insured. For a non-payment of premium cancellation, the Company will send a notice of cancellation to the insured. As proof of such, the Company furnished certificates of mailing for every non-payment cancellation. In each case reviewed the insured was given the required 10 days notice prior to cancellation.

All refunds of unearned premium were recalculated to ensure accuracy. There were no discrepancies noted between Company unearned premiums and examiner calculated amounts.

Claims Practices

Organization and Procedures

The Company's claim service in Rhode Island is handled from offices in Lincoln, RI. The Company is committed to telephone claim handling as its primary operational mode. Necessary field work is handled by staff adjusters and independent adjusting firms.

The Company's claim handling practices were examined to determine compliance with Rhode Island Statutes and Regulations as well as policy provisions.

A random sample of 103 claim files was reviewed for the period under examination. Approximately half of the sample was chosen directly from the Company's record retention facility. The remainder was chosen from a Company prepared claim level detail report of paid losses which was reconciled to amounts reported in the Company's Annual Statement.

The above files were examined for timeliness of payment, supporting documentation and accuracy of payment. All files were well documented and met standards for prompt, fair and equitable settlement of claims. Our review did, however, disclose one instance in which the wrong deductible was applied to a loss and as a result, the insured was overpaid for his claim. It is recommended that the Company strengthen procedures to ensure the proper application of deductibles to all claim payments.

Our review of homeowners claims disclosed a potential problem regarding the application of the coinsurance provision with respect to claim payments made by the Company. Three large property losses were chosen at random specifically to determine the Company's adherence to the coinsurance clause. In at least one instance, it was determined that the coinsurance clause was not applied and the loss was paid in full despite the applicability of the clause. It is recommended that the Company develop procedures to ensure the application of the coinsurance clause where policy provisions require such. In addition, it is

recommended that the Company establish procedures to better inform policyholders of the negative effects of insufficient insurance to value coverage inherent in their policies.

As mentioned previously in this report a claims related problem was disclosed when reviewing consumer complaints. It was determined from our review that the Company makes every effort to resolve first party claims in a manner which is most favorable to the insured. In this instance however, coverage was not questionable and the insured was paid for damages that appeared to be excluded by policy provision. It is recommended that the Company pay claims in accordance with policy provisions in the future.

Our review of claim files included several closed without payment files and total loss settlements. All files closed without payment were withdrawn by the insured. Total loss settlements were reviewed in order to determine if the settlements were equitable and timely. The Company followed industry practices by using guidebook values and dealer quotations (local market value) to establish actual cash values of vehicles. All total loss settlements reviewed exhibited prompt, fair and equitable treatment of policyholders.

Subrogation

A vigorous subrogation policy is pursued by the Company. A review of subrogated claims was performed in order to ensure that deductible recoveries were refunded to the insured. In all cases reviewed, the deductible or appropriate portion of the deductible was promptly refunded to the insured.

Litigation

Five litigation claims were examined to determine if the Company was engaging in any unfair claim settlement practices. The review revealed no apparent violations of Rhode Island Regulation XXVIII.

Summary of Recommendations

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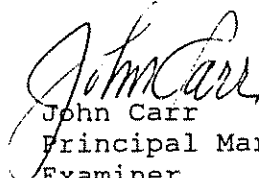
- 7 It is recommended that the Company review all pamphlets and brochures distributed to policyholders to ensure that all statements regarding policy dividends are not misleading.
- 10 It is recommended that the Company strengthen procedures to ensure proper application of deductibles to all claim payments.
- 10 It is recommended that the Company develop procedures to ensure the application of the coinsurance clause where policy provisions require such. In addition it is recommended that the Company establish procedures to better inform policyholders of the negative effects of insufficient insurance to value coverage inherent in their policies.
- 11 It was determined from our review that the Company makes every effort to resolve first party claims in a manner which is most favorable to the insured. It is, however, recommended that the Company adhere to policy provisions in providing this increased level of service to its policyholders.

Conclusion

Acknowledgment is made of the courteous cooperation extended by the officers and employees of the Company during the course of the examination.

In addition to the undersigned, Carl Sanderson, Market Conduct Examiner participated in the examination and preparation of this report.

Respectfully Submitted,


John Carr
Principal Market Conduct
Examiner
State of Rhode Island